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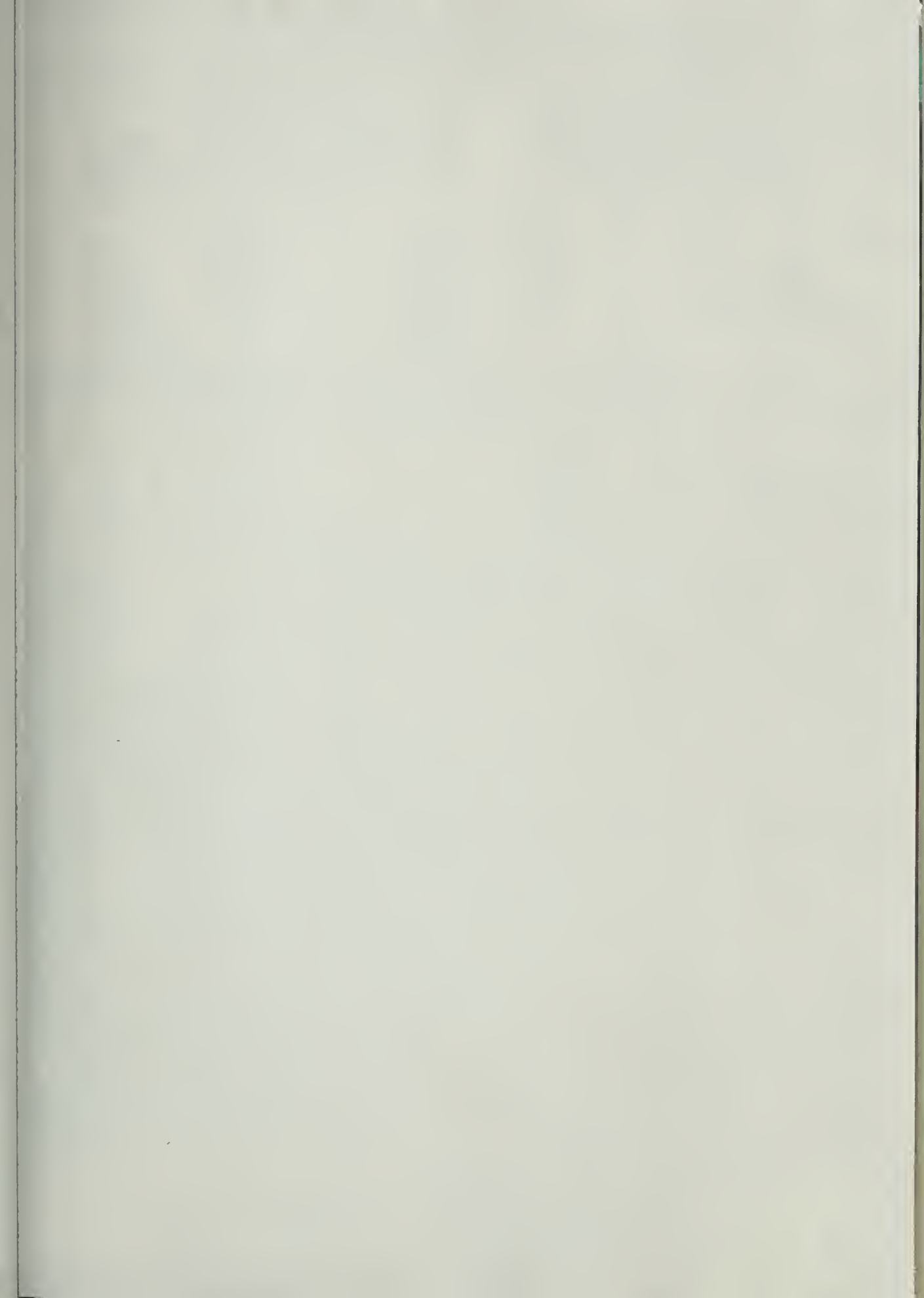
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Annual Report on American Industry

BES

15 January 2

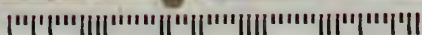
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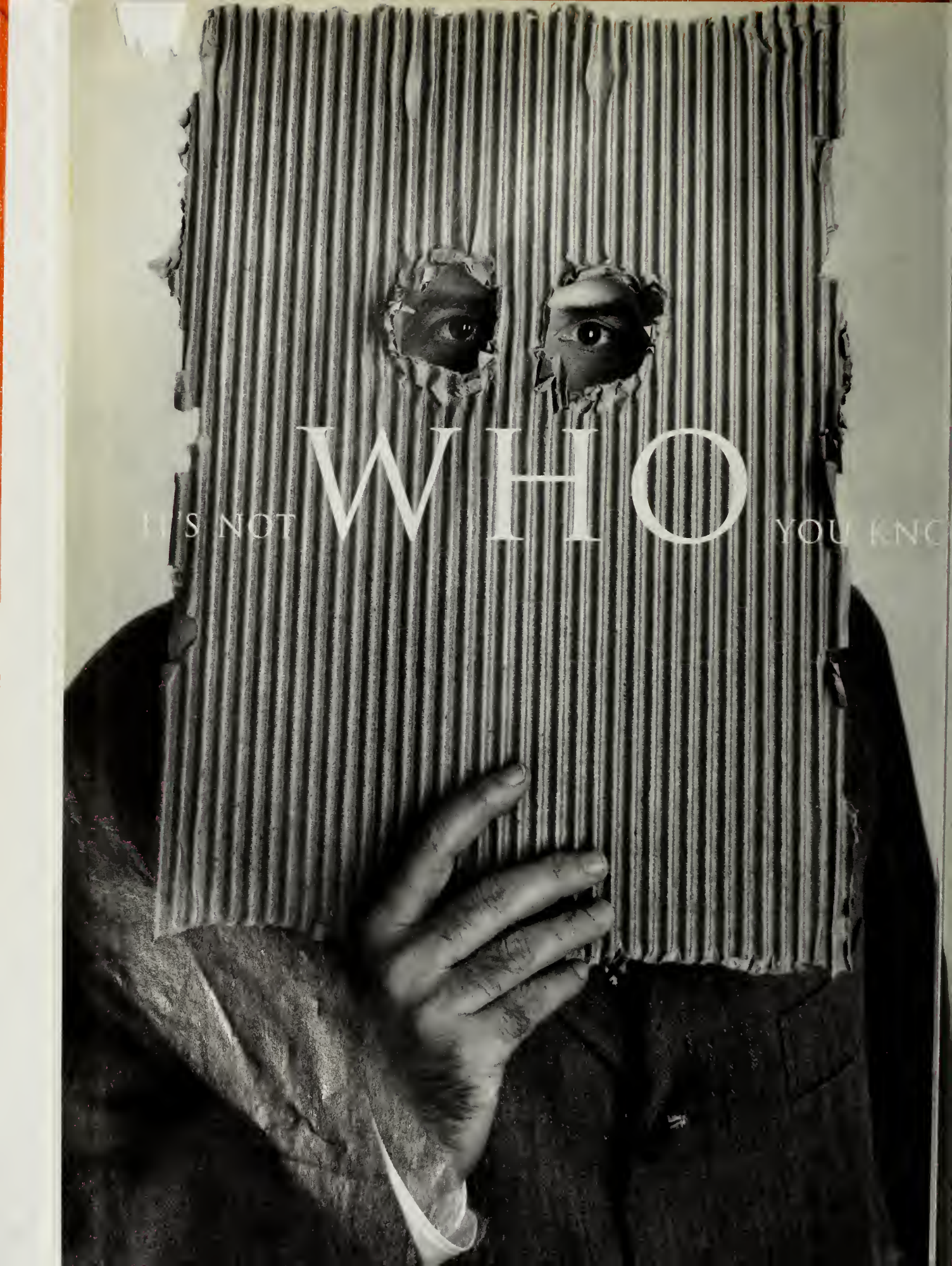
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WHO IS NOT YOU KNOW

WHAT

YOU KNOW.



THE DAYS OF GETTING

SOMEWHERE IN THE BUSINESS

WORLD BECAUSE YOU KNOW

THE "RIGHT PEOPLE"—

WHOEVER AND WHATEVER

THEY ARE

THIS WEEK—ARE ENDING.

HALLELUJAH.

Today's businesses, at

least the really good ones, put the emphasis on using your bean.

Because some businesses say that a good idea can come from anywhere and some businesses

really believe it and set themselves up so that good ideas—wherever they come from—can be shared.

Those aforementioned really good businesses may have private offices and walls, but where it really counts—attitudinally, technologically and interactively—minds are open, people are accepting and, like the neighborhoods we remember, people help each other out the best they can, when they can.

Some of this is because of computer technology and new technologies for communication, but most of it comes from people realizing that hoarding information

in an important pile on the credenza doesn't make an executive more powerful.

Our business applications are designed along these lines of thought. For example, Microsoft® Office is a family of software business tools designed to share information and work seamlessly together. Charts and files can easily be imported from one application to another. And each is easy to use, because once you've learned one application, you can use them all.

The new Microsoft BackOffice is an

integrated information system built on Windows NT.™ It does more than tie computers together. It facilitates the flow of information so ideas can whiz around the office quickly, from the top down and, perhaps more importantly, from the bottom up.

And since Windows™ makes using a computer so easy, you can use more of that bean of yours doing your job and less of it figuring out how to do it.

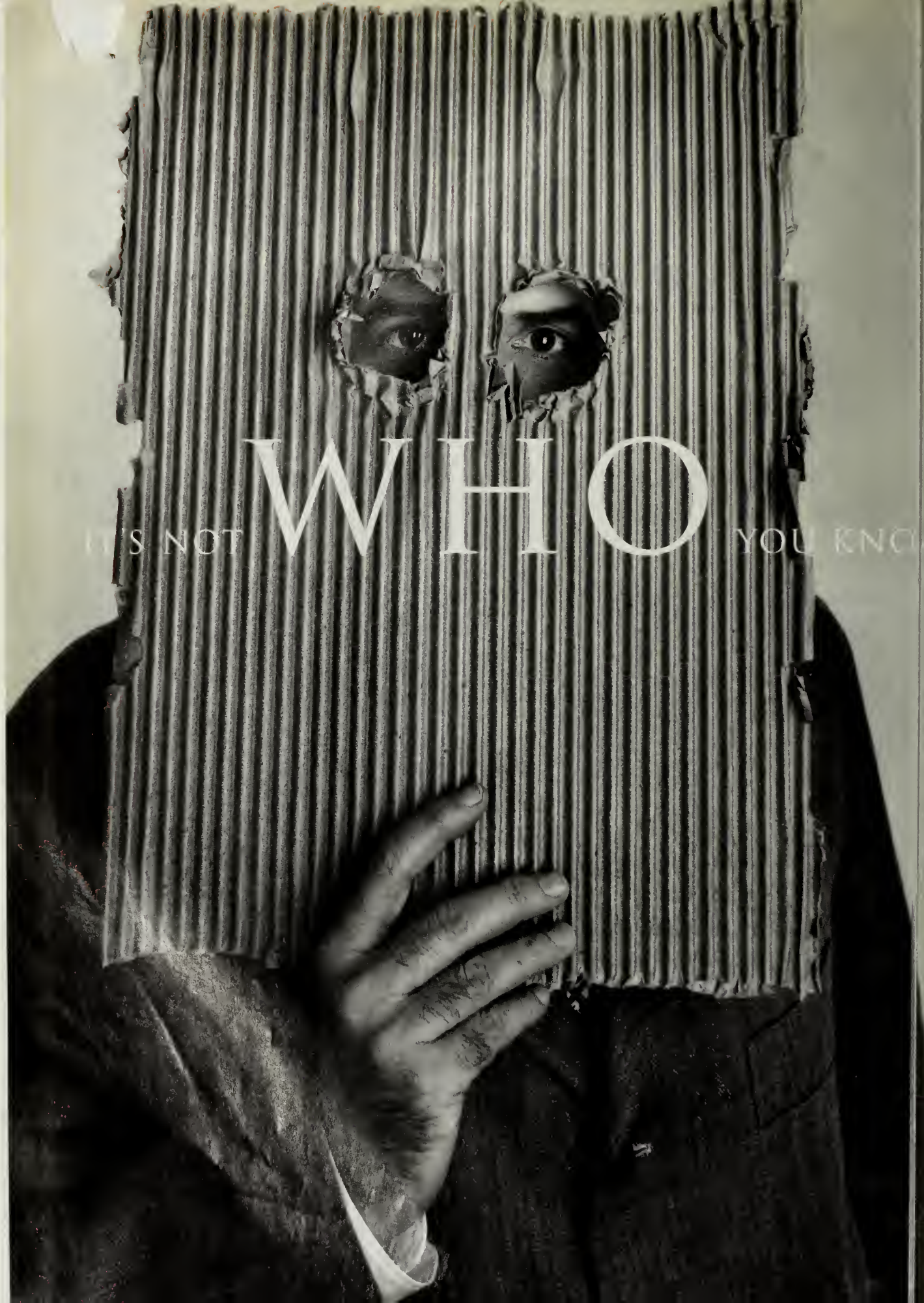
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IT'S WHAT YOU KNOW.



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WORLD BECAUSE YOU KNOW
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Catch a Rising Star before these firms become household names.
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January 2, 1995
Volume 155
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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office. Subscription rate: \$57 a year.

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Numbers that sing

NO ONE CAN PERUSE THE NUMBERS in this, our 47th Annual Report on American Industry, without being impressed by the evidence of how much efficiency has improved in the U.S. corporate world. Steve Kichen, our senior editor in charge of statistical operations, supervised the gathering and analyzing of the data. He sums it up: "Beyond the buzzwords of rethinking, restructuring and downsizing lies a fundamental improvement in the way U.S. business operates. People who still talk about the industrial decline of America are talking through their hats."

But don't these upbeat numbers begin to smell of inflation? Steve scoffs. "The numbers show that raw material prices are up, but only back to the levels of the 1980s. Cartels, unions and other anticompetitive forces—including even governments—have lost much of their power to impose monopoly prices. The profit rises we are seeing come not so much from raising prices as from controlling costs and delivering more product. Computer sales are through the roof, but when was the last time you heard of a computer hardware or software company raising prices?" Packed with the vital statistics on 1,370 companies in 21 industry groupings, our latest Annual Report starts on page 122.

In gathering the numbers, Kichen called on a staff of 20 and a fair concentration of computer power. It wasn't always that way. At 46 a FORBES veteran of 15 years, Steve recalls being the first person in our editorial department to have a microcomputer, an Apple II. Now he sits in an office packed with electronic equipment, and when he gets home, there's more of the same: Steve is using a computer to help teach English to his newly adopted Vietnamese son. "I am rebuilding a computer for him," Steve reports, "turning an old IBM AT into a multimedia machine. It would have been cheaper to buy a new one, but it's more fun for us this way." How old is Steve's pupil? Luan is 4.



Steve Kichen

Out, out, damned gremlin

THERE ISN'T ANOTHER business reporter who writes more perceptively about aerospace than our Howard Banks, but Howard has briefly donned a metaphorical hair shirt. "When making a late editing change in the Informer item on Gulfstream (Dec. 19, 1994)," he explains, "I missed the obvious error transposing Beech and Cessna. I know as well as I know my name that Beech is owned by Raytheon and Cessna by Textron. Yet somehow the slip escaped me." Howard, it escaped me and a couple of other editors as well. Must have been a Christmas gremlin loose around the place.

Editor

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How sweet it is

CAN A \$37 billion company really expect to post rapid, consistent growth? Nestlé's efforts to do just that by setting up production in emerging markets looked like the right recipe to FORBES four years ago (Oct. 1, 1990).

Bull's-eye. Nestlé has averaged 8% sales and 9% earnings increases over the past four years, despite global recession. Once scorned as an opportunistic outsider, the 128-year-old Swiss firm is now a case study in blending in.

In industrialized markets, Nestlé remains hungry for acquisitions—but only at the right price. Three years ago it bought mineral water vendor Source Perrier for a net cost of \$1.9 billion, or 12.5 times operating cash flow. But last year it passed on paying 15 times operating cash flow for Gerber baby foods, which instead went to Sandoz Ltd.

Is Nestlé sated? No way, says Salomon Brothers analyst Les Pugh. He expects the company to announce some big acquisitions in the next few months. The likely candidates: \$519 million for Grand Metropolitan's Alpo pet foods (already announced), \$600 million for Quaker Oats' European pet foods, and \$400 million for Allied Domecq's Tetley tea.

Quite a shopping list.

—MARC E. BABEJ

Russian standoff

ON DEC. 3 Boris Yeltsin sent a special task force of his elite presidential guards to raid the central Moscow headquarters of Vladimir Goussinsky's shadowy Most Bank, which we profiled last month (Dec. 5). Armed with machine guns and wearing combat fatigues and balaclava caps, Yeltsin's men ransacked Most's headquarters and arrested several Most employees.

Goussinsky summoned help from friends at the Federal Counterintelligence Service, the successor to the KGB. But the Counterintelligence troops were turned back by Yeltsin's men; Yeltsin promptly fired the Counterintelligence official who tried to help Goussinsky.

What was Yeltsin up to? Through



Russian President Boris Yeltsin

Attacking corruption or political rivals?

a spokesman, Yeltsin says the raid was carried out to find "links between Most and corrupt functionaries in state and municipal organs." In typically blunt fashion, Yeltsin was trying to intimidate a main political rival, Moscow Mayor Yuri Luzhkov.

Luzhkov is good buddies with Most Bank's Goussinsky and deposits much of the city's cash balances with Most, interest free. The raid was meant to uncover proof of the strong suspicions that Luzhkov creams off most of the bank's profits, and thereby weaken him. It has already added to the clouds over Goussinsky's head.

—PETER FUHRMAN

Not a pretty picture

"HOLDING a gun to their heads," is how Seidler Cos. analyst Jeffrey Logsdon describes Savoy Pictures Entertainment's offer last month to bondholders to swap \$65 million in debt for equity at a reduced price. The move follows a disastrous financial and theatrical premiere for Savoy and Chairman Victor Kaufman. It is also a far cry from the rosy scenario we had outlined (Apr. 12, 1993).

What went wrong? Only one of Savoy's first six films made money, and the firm lost \$29 million on \$57 million in revenues in the first nine months of 1994, for starters. Kaufman, who previously founded Tri-Star Pictures, has also strayed from his low-risk strategy of distributing films since taking Savoy public in March 1993. Instead, he's moving into film and TV production and

wants to acquire four TV stations.

Investors aren't impressed. After hitting 21 in December 1993, Savoy's stock fell 70% last year, to a recent 6 1/8. Kaufman, with 20 releases set for this year, insists all's well. "We're in by far our strongest financial position ever," he says. Stay tuned.

—MARLA MATZER

Clorox cleans up

HAWKING CAKE MIX in crusty Brooklyn neighborhoods as a young salesman is one thing, but *FORBES* figured new Chief Executive G. Craig Sullivan would need more than moxie to turn around Clorox Co. (Oct. 12, 1992). At the time, Clorox's once pristine earnings record had been soiled by ill-conceived expansion into everything from frozen foods to restaurant equipment.

Sullivan has delivered. He quickly sold off many noncore businesses and concentrated on the products Clorox knows best—mainly bleach and cleaning products like S.O.S soap pads, whose operations it bought last year.

A former Procter & Gamble salesman, Sullivan is also aiming to double overseas revenues to 20% of the \$1.8 billion firm's total. That means focusing on high-growth markets in Latin America, Eastern Europe and Southeast Asia.

Wall Street likes what it sees. Clorox's stock is up 36% since our story, to a recent 59 1/2. Says Sullivan: "The key is staying focused and not getting outside what we do best."

—KERRY A. DOLAN



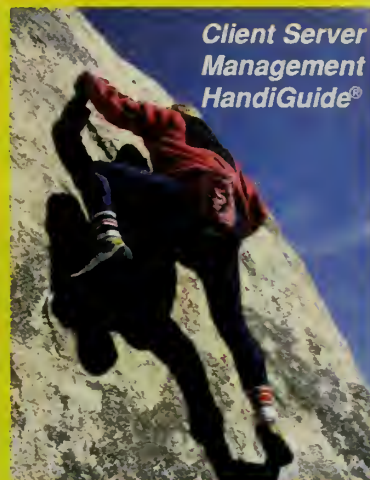
Clorox Chief Executive G. Craig Sullivan
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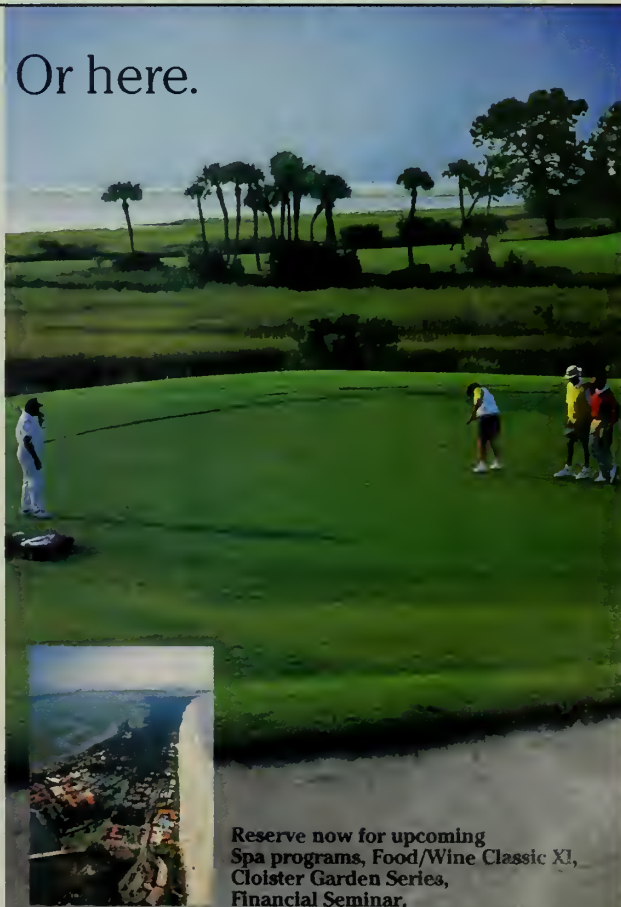
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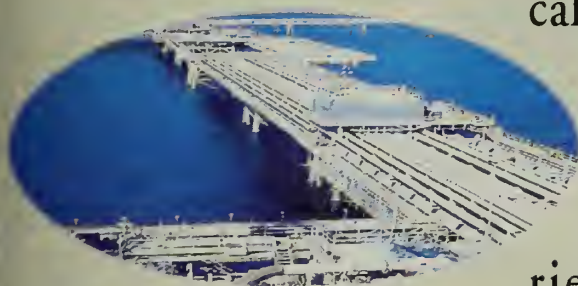
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Nowhere to hide

THE LOS ANGELES Trial Lawyers Association just changed its name, to the Consumers Attorneys Association of Los Angeles. This is aimed in part at deflecting criticism of outrageous lawsuits, but was apparently triggered by O.J. Simpson. Trial lawyers in Los Angeles were bombarded by calls from reporters seeking comments on the case—which ticked them off: They handle civil, not criminal, cases.

The California state association is considering changing *its* name, too, but spokesman Robert Forsyth concedes: “No matter what we call ourselves, we will be on the hit list.”

—DAMON DARLIN

When the going gets tough...

FARE WARS have finally dinged even industry pacesetter Southwest Airlines. But leave it to boss Herb Kelleher. He has hatched a new plan to stay ahead in today's brutal market.

Kelleher persuaded Southwest's 2,000-strong pilots union to accept a tough ten-year pay contract: no guaranteed increases over the first five years, only three of just 3% apiece in the second five. In exchange, the pilots will each year get options, to be shared amongst them, on 1.4 million Southwest shares. Plus the pilots stand to get profit-related bonuses.

Other Southwest workers are expected to agree over time to comparable packages.

The pilots deal, says Gary Kelly,



Southwest's Herb Kelleher
Missiles away.

Southwest's chief finance officer, “will cut annual costs by hundreds of millions.” This will slash Southwest's 7-cents-a-mile operating cost, a target the rest of the industry has yet to match.

Kelleher's cost-saving will make things tougher for Southwest copycats like Continental's low-cost Calite service, Reno Air and United Airlines' Shuttle, the last of which Kelleher calls “an intercontinental ballistic missile aimed directly at us!” Looks as if Herb has his own version of Star Wars.

—HOWARD BANKS

No raise for him

ORANGE COUNTY's investment debacle shouldn't have taken the media by surprise. *Wall Street Journal* reporter Earl C. Gottschalk Jr. last April wrote about the risks in the highly leveraged portfolio, but the rest of the media, including local newspapers, failed to follow up. A career booster for Gottschalk? Nope. He was one of 13 editorial staffers axed by the *Journal* in a cost-cutting move this November.

—D.D.

Soup's on

OVER THE PAST few years a lot of JAL passengers asked where they could buy the soups the carrier served to first-class and business-class passengers. Answer: Since last summer, in convenience stores across Japan. In August Meiji Seika Kaisha, Ltd., the Japanese confectionery and pharmaceutical maker, began selling powdered versions of its JAL beef consomme and cream of corn airline soups to retail outlets. What's in it for JAL? Good publicity: The JAL logo goes on the package. As for the small royalty the airline receives, “It's just a soupçon,” laughs JAL spokesman Geoffrey Tudor.

—LISA SANDERS

Dances with dogs

KEVIN COSTNER made big wampum dancing with wolves, but *Wyatt Earp* and *The War* were duds and the glamour boy's Easter Island epic *Rapa Nui*, which he produced for \$20 million, grossed less than \$300,000. Now poor fellow's been



Kevin Costner
Water-logged?

scalped for a reported \$80 million in a divorce settlement. Nor is he likely to recoup with his latest flick, *Waterworld*, in production in Hawaii. The film is way behind schedule and over budget. Rumored cost: a staggering \$167 million.

—MARLA MATZER

Ginger snap

EPA rules require that pesticide manufacturers conduct separate tests for residual chemicals on each separate crop. That rigid rule has almost wrecked the Hawaiian ginger root crop, which has dropped from 12 million pounds to a bit over 4 million, since farmers were obliged to stop using methyl bromide to prevent fungus and bacterial wilt. Yet the EPA permits use of the same chemical on strawberries. Why the discrimination? Simply that the ginger crop is too small to make testing worthwhile for manufacturers. The bureaucrats' rules are tough luck for the ginger growers.

—SETH LUBOV

Artificial intelligence

THE IRS is bragging about a computer program its artificial intelligence lab has been testing since 1990. It weighs 20 factors to decide

whether a given worker should be treated as an employee or a self-employed contractor. Later this year the agency will give the software to taxpayers so they can figure out for themselves how it would rule.

Tax experts recommend you not depend on the software. The IRS doesn't like independent contractors because they aren't subject to wage withholding and reporting and supposedly cheat on their taxes. Last year, for instance, the IRS' Chicago district found folks to be independent contractors in less than 1% of the cases it decided.

"The software just reflects the IRS' biased views," says Washington lawyer John Satagaj, who represents small businesses on the independent contractor issue. —JANET NOVACK

Hold that music, please

CALLERS stay on hold longer when they have something to listen to, so more offices are playing the radio or prerecorded songs. They may be breaking the law, warn the American Society of Composers, Authors, & Publishers (Ascap) and Broadcast Music, Inc. (BMI). "There are a lot of businesses using music-on-hold that don't realize they need to get permission from the songwriter," says BMI spokesman Steven Blinn.

This permission Ascap and BMI will gladly provide through licenses that can cost between \$140 and \$1,200 a year. Or, businesses can turn to services like Muzak, which charges as little as \$30 a month for licensed music.

Under current federal copyright law, penalties can run as high as \$20,000 per pirated song.

—R. LEE SULLIVAN ■



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Attention!

SIR: The U.S. Army's molding process is unsurpassed in leadership development and training ("We're not authoritarian goons," *Oct. 24, 1994*). Throughout history, the American soldier has been renowned for his creativity, resourcefulness, quick thinking and willingness to take the initiative. When these attributes are tested in the Army's leader development process, the end product is the finest military leaders in the world.

—JOE R. REEDER

*Under Secretary of the Army
Washington, D.C.*

Saluting the uniform

SIR: Re Fact & Comment (*Oct. 10, 1994*). Military members quickly learn to look at people's faces, not their apparel. In mufti [civilian clothes], I have frequently been told by civilians, "I didn't recognize you out of uniform." You never hear this from military people. After working with others in uniform, clothes become secondary to the person inside them.

—RANDOLPH J. WILLARD

*Lieutenant Commander, USN
Idaho Falls, Idaho*

Changing clothes

SIR: Re "Dressing down" (*Dec. 5, 1994*). Because of our casual and formal product offering, Hartmarx views the casual versus dress-up issue from both sides of the argument. Unquestionably, a wider acceptance of casual apparel is here to stay, but so is formal apparel. Fashion and trends have one

thing in common: change. *FORBES* might have pondered what happened to the Nehru suit, double knit and texturized polyester fabrics, turtle-neck shirts to replace dress shirts and neckties, the leisure suit, etc. Societies, more mature than ours, in Western Europe figured that phenomenon out long ago.

—E.O. HAND

*Chairman and Chief Executive
Hartmarx Corp.
Chicago, Ill.*

Power play

SIR: Re "Where have all the salmon gone?" (*Nov. 21, 1994*). In 1994-95 Bonneville Power Administration will subsidize Northwest aluminum companies to the tune of \$358 million. Agribusiness irrigators will get about \$15 million of subsidized power [and] BPA's utility customers will get about \$200 million. Bonneville's nuclear power plant gambling debt of about \$13 billion in principal and interest created [one of] the nation's largest municipal bond default[s].

—ED CHANEY

Eagle, Idaho

SIR: The aluminum spokesman will tell you all about the millions of dollars his industry has shelled out for salmon recovery. Wrong. BPA fish and wildlife costs are fully allocated to Federal Base System customers. The aluminums pay no fish and wildlife costs.

—PHIL LANSING

Boise, Idaho

Foie gras fracas

SIR: *FORBES* shows a callous indifference to animal suffering by glorifying the business acumen of Ms. Daguin ("Diversifying into pâté de foie gras," *Nov. 21, 1994*). Daguin's financial windfall derives from a life of daily misery [for] ducks and geese.

—PENELOPE MALONE

Atlanta, Ga.

Creditworthy

SIR: Concerns about fraud in the earned income tax credit program ("The worm in the apple," *Nov. 7, 1994*) are well placed but are being

addressed. The Justice Department is aggressively prosecuting tax preparer who use the EITC to defraud the federal government, and the IRS will delay refunds on any questionable return with an invalid or missing taxpayer identification number.

—BARBARA B. KENNELLY

*U.S. Representative (D-Conn.)
Washington, D.C.*

Scouting for virtue

SIR: We at the Girl Scouts certainly agree with Armstrong Williams' statement that there are extremely high societal costs connected with the loss of civic virtue ("Virtue pays," *Oct. 10, 1994*). Girl Scouting has a dramatic effect on girls' lives and, in the long run, on our country's economy. Girls learn important life and career skills, develop a strong sense of self, and work toward becoming contributors to society rather than a drain on our country's resources.

—MARY ROSE MAIN

*National Executive Director
Girl Scouts of the U.S.A.
New York, N.Y.*

A healthy stock

SIR: Re "Be careful of those retreads," (*Dec. 5, 1994*). General Nutrition Cos.' IPO was at \$16 per share on Jan. 21, 1993 and the July 14, 1993 offering *FORBES* cites was a secondary offering. GNC's stock has appreciated more than 250% since the IPO and more than 50% since the secondary offering. Not bad for a "retread."

—WILLIAM E. WATTS

*President and Chief Executive
General Nutrition Cos.
Pittsburgh, Pa.*

Live it up

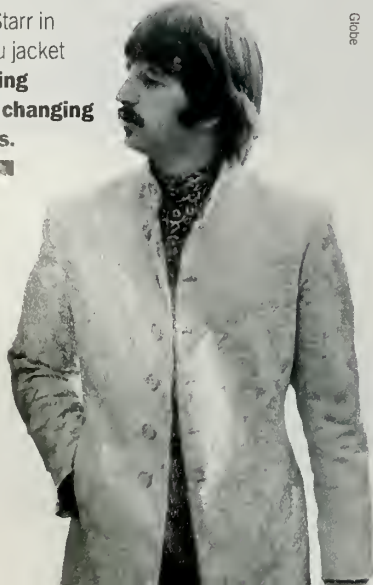
SIR: Re "The big black hole" (*Nov. 21, 1994*). Life expectancy has increased by slightly over 11 years since the Social Security plan was originated in 1935. You can't go now to people and tell them they will have to wait forever for their benefits, but you can push them up a year [at a time] until the younger ones are paying until 72. This is fair.

—CARLTON GLADDER

Spokane, Wash.

Ringo Starr in a Nehru jacket

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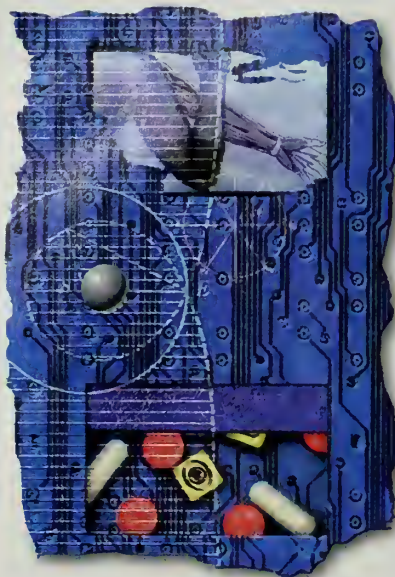
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



RE ORANGE COUNTY

A LESS PUBLICIZED, less sensational but ultimately even more costly speculation was made by the Clinton Administration in its financing of the national debt. When interest rates plummeted in 1993, the Treasury Department began shortening the average maturity of U.S. securities instead of locking in those low, long-term rates. (Millions of homeowners and corporate borrowers, of

course, wisely did the opposite.) The Administration, for example, cut back the issuance of 30-year bonds. Instead of auctioning such securities four times a year, it now does so only twice.

Washington went shorter to make the deficit look smaller. This cute, short-term maneuver is going to cost us and our heirs billions of dollars in the years to come.

DON'T OVERREACT

THE ORANGE COUNTY FIASCO should not panic regulators to severely restrict or ban derivatives. Properly used, they are amazingly effective for employing capital more efficiently. All financial instruments—stocks,

bonds, junk bonds, bank deposits, commercial paper, etc.—have proven invaluable, and all have been at times misused or abused. The key here is faster, more complete disclosure.

UNNECESSARY, BUT TEMPORARY, TURMOIL

THE NOW STRONGISH ECONOMY will weaken as the Fed's high interest rates really begin to bite. Consumers can't keep increasing their indebtedness at the current pace, especially as those with variable-rate mortgages are writing bigger and bigger monthly checks. The President's 1993 tax increases will also hurt. Just as Republicans predicted they would, budget receipts from high-income earners are coming in *below* expectations. These people will cut back purchases instead of dipping into savings or boosting their borrowings as they did in 1994.

The slowdown will easily be turned around if the Fed finally finds its way out of its destructive operational rut and if President Clinton goes along with congressional Republicans to cut the capital gains levy and ease other tax burdens. Another economic depressant—the Administration's regulatory binge inflicted by agencies such as

the FDA, EPA, FCC, OSHA and the Justice Department—will be largely lifted by the new Congress.

The Federal Reserve raised interest rates in the name of fighting inflation, yet continued to *add* liquidity to the banking system. That's why long-term rates went up so much in 1994. The Board's governors will soon see the errors of their ways, but unnecessary damage has been done.

The coming turbulence in the economy and financial markets will only temporarily mask our extraordinary strengths. The U.S. is bursting with fabulous innovations in the fields of information technology and medicine. Fiscal, monetary and regulatory barriers to realizing our full potential will begin to be removed. By year's end, stocks will be stronger, interest rates will be lower than they are now, and the economy will be poised for substantial growth.

FLAT LIES AGAINST FLAT TAX

WHEN HOUSE Majority Leader Dick Armey (R-Tex.) proposed his flat tax plan several months ago, opponents quickly realized it would have potent public appeal. A family of four, after all, wouldn't start paying the 17% rate until its income exceeded \$36,800.

Tax-and-spenders like the flat tax about as much as veteran politicians do term limits. Detractors have been reduced to labeling the idea as



Robert McIntyre, *TechnoPolitics* host Tim White, MSF Jr.: Cooking the numbers won't cook the flat tax.

a giveaway to the rich and to engaging in bogus arithmetic to show a flat tax would balloon the deficit.

One tax-and-spend advocacy group, which in Orwellian fashion calls itself Citizens for Tax Justice (CTJ), charged that the Armey plan would swell the deficit anywhere from \$120 billion to \$320 billion. Armey, who has a doctorate in economics, and respected tax experts found serious flaws in

CTJ's arithmetic. As Arney explained, "CTJ assumed that no taxes would be paid on \$471 billion worth of government purchases. This is plainly incorrect because for every dollar the government spends to purchase items, firms or individuals receive a dollar of income which is taxable under the plan." The Treasury Department, in a similar, preelection attack, made what it now acknowledges was a \$500 billion error. You'd think that with the discovery of these and other such monumental flaws, the

deficit argument would disappear. Think again.

Opponents still brazenly cry "deficit." In a short debate with me on the PBS show *TechnoPolitics*, flat tax opponen and CTJ Director Robert McIntyre trotted out thi discredited argument. When I called him on it, he shrilly falsely asserted Arney's arithmetic was at fault, not his.

Hearings will be held on the Arney plan in the new Republican Congress. It will take more than such shame less mendacity to derail it.

CURBING REGULATORY COMMISSARS

SENATOR (AND PUTATIVE PRESIDENTIAL CANDIDATE) Phil Gramm (R-Tex.) has put forth a bill called the "Private Property Rights Restoration Act." Quick passage would sharply curtail Washington's increasingly capricious imposition of stringent controls on people's private property. Agencies such as the EPA, the Army Corps of Engineers and the Interior Department have effectively denied more and more people use of their land in the name of preserving wetlands, endangered species, desirable recreation sites, etc.

The Constitution specifically prohibits the government from taking somebody's property without just compensation. If the government wants land for a highway, it must pay fair market value for the land. But bureaucrats virtually seize people's property with so-called regulatory takings. These rulings can render somebody's land almost useless,

valueless. It's both constitutional and fair that owners be compensated for their property, since these takings are allegedly done on behalf of the public interest.

Gramm's bill would allow any owner of real property to sue the U.S. government if a regulatory action reduces the value of his or her holdings by at least 25% or \$10,000, whichever is less. The Feds would be obliged to pay the owner for the full amount of the diminution in value. If the owner so chose, he could receive the property's fair market value and relinquish the property to the government. This compensation, as well as reimbursement of the property owner's legal fees, would be paid out of the budget of the agency that issued the regulation.

Gramm's proposal would restore a sense of accountability to regulators who, up to now, have been largely uninhibited in issuing increasingly arbitrary decrees.



HOW TO HAMSTRING HYENA-LIKE LITIGATORS

THE NEW REPUBLICAN CONGRESS must enact a variant of the so-called English Rule, which forces the loser of a lawsuit to pay part or all of the other side's fees. Britain has long had such a statute, and it's time we did as well. Meaningful provision for recovering attorneys' fees would eliminate frivolous litigation.

In a recent case that underscores the need for action, three people stole a Domino's Pizza delivery vehicle and crashed it into a utility pole, injuring one of the thieves. This passenger proceeded to sue Domino's for damages, claiming the deliveryman was negligent in leaving the motor running while making his delivery. The plaintiff-thief's

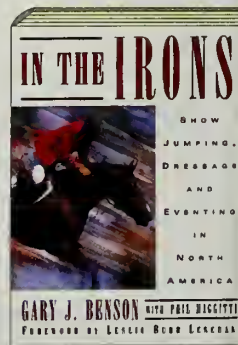
case made it to the Pennsylvania Superior Court before was definitively dismissed. Domino's spent tens of thousands of dollars to defend itself against this absurd action.

The time and money involved litigating such insane nuisance suits has unfortunately persuaded many defendant and insurance companies to quickly settle out of court. This, in turn, merely whets the appetite of vulture attorney to clog the courts with even more meritless litigation.

Despite lavish contributions from the trial bar, President Clinton would be hard put to veto an attorneys' fee recovery rule. The impact of such a measure on productivity and growth would be truly fantastic.

HORSING AROUND

EVEN NONHORSEY PEOPLE, including those of us who have convinced readers that our writings are from the south end of a horse going north, will find these two books stirring, absorbing. Richard Stone Reeves is by far the foremost painter of champion Thoroughbreds in the world today. His subjects in **Royal Blood** (text by Jim Bolus, The Blood-Horse, Inc., \$75) range from Man o' War, nearly a century ago, to last year's Preakness winner, Tabasco Cat. Reeves brilliantly brings to life each of these extraordinary animals. **In the Irons**—by Gary J. Benson (text by Phil Maggitti, Howell Book House, \$50). Benson's four-color photos are more evocative, pack more action than any video or movie. Unlike most coffee table volumes, these are too well done to collect dust.





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Other Comments

Parking Privileges

THOSE GUYS at the IRS [have] hit White House officials with hefty tax bills for free parking—but found a way to lighten their own load for the same privilege.

IRS officials pay next to nothing in taxes for their free parking spaces—because the spaces are not reserved by name. At the White House, free parking is assigned by name—and the IRS has sent notices for back taxes to Clinton staffers. “This is going to cost me \$2,000,” one White House official complained.

—*The Washingtonian*

Inflating Egos

AMERICA’S CENTRAL BANKERS, as well as their counterparts abroad, are running economic policy in a global era from a playbook written for a relatively closed national economy. They are fighting the inflation wars of times gone by, and the markets keep cheering them on. Vigilance against inflation is a legitimate aim, but the Fed’s parallel goal must be to ensure the health of all money and capital markets in their depth, breadth, and liquidity. Today, that task requires a touch far subtler than the broad swipe of interest rate hikes.

The Fed must reassess the supremacy given to both its inflation fight and the use of interest rates as its primary policy tool. Inflation is far less threatening than the prospect of recession or slow growth, and raising interest rates

to dampen inflation offers a cure that is often far worse than the disease. Successful reform will allow the Fed to get off the back of the U.S. economy and give America the more robust levels of growth that it deserves.

—JAMES D. ROBINSON III, President, J.D. Robinson Inc. and former CEO, the American Express Co., *Foreign Affairs*

Great minds discuss ideas,
average minds discuss events,
small minds discuss people.

—HYMAN G. RICKOVER (1900-1986), admiral, U.S. Navy, in *Quotable Business*, by Louis E. Boone

Boobs in Toyland

REMEMBER THE new government ethics rules signed into existence when Mr. Clinton assumed the presidency? The rules weren’t able to stop Travelgate; nor the use of Marine helicopters to staff golf outings; nor was Whitewater blunted by the new ethics dicta. The new rules are starting to bite, however: The Marines are under orders to cut back their involvement with the Toys for Tots campaign.

No more using Defense vehicles for transporting toys. No more using Marine Corps warehouse space to store children’s presents. No more

taking up military computer memory with lists of toy donors and recipients. Nor can Marines solicit donations even if the goodies are trucked and warehoused by civilians.

Clinton continues his charm offensive with the military. Gays are in; helping poor kids on the home front is out. Uniformed cocktail waiters and caddies are in; clear missions and the wherewithal to fulfill them are out.

—*Washington Times*

Taxing Problem

IF TAXPAYERS over the years had paid their taxes the same way they make rent or car payments, the government never could have grown as large as it has. Only by taking people’s money before they ever see it has the government been able to raise taxes to their current level without igniting rebellion. My [flat tax] plan would end withholding and put a permanent check on the confiscatory appetites of the political class.

—REPRESENTATIVE DICK ARMEY (R-Tex.), *Wall Street Journal*

It’s Simple

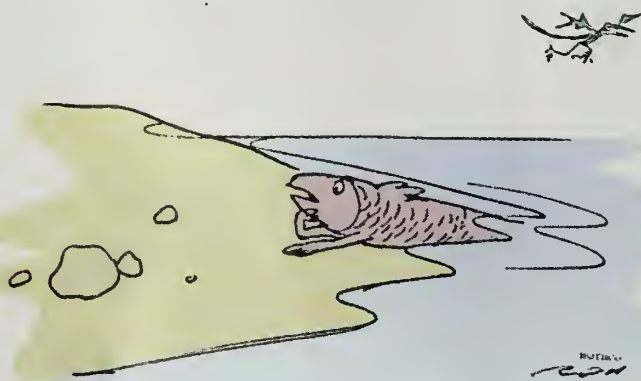
PROPERTY-RIGHTS ADVOCATES argue that many of the actions undertaken in the name of species protection and wetlands preservation violate the Fifth Amendment clause, “nor shall private property be taken for public use, without just compensation.” If the public wants to protect endangered species or preserve a scenic vista, the public should be willing to pay for it, just as it pays for highway parks and other “public goods.” The costs should not be imposed on whoever is unfortunate enough to hold title to a coveted piece of land.

—JONATHAN H. ADLER, *National Review*

Hardware

THE SALVATION ARMY called on women to donate unwanted bras. The bras would be recycled into roof insulation for poor families.

—*The Economist*



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"Did the weatherman say anything about solar winds tonight?"

It wasn't a rainstorm that knocked out the power in Quebec, Canada, and disrupted service in seven states in March 1989. It was the sun.

In addition to light and heat, the sun radiates an electrically charged gas called plasma, or solar wind. When the solar wind penetrates the Earth's magnetic field, it creates spectacular light shows known as the Northern and Southern Lights.

It can also create havoc.

Solar wind has disrupted radio communications, navigation systems and, as it did in March 1989, caused a massive power blackout.

To help predict these potentially dangerous "space weather" conditions, NASA launched the Wind satellite on November 1, 1994. The first of two spacecraft in NASA's Global Geospace Science program, and part of an international satellite network, Wind will study the mass, momentum and energy of the solar wind for the next three years.

The data it sends back will provide the early warning needed to minimize solar wind damage to radar, microelectronics and the power supplies of entire cities.

As the company that designed and built Wind, which already is providing useful data to scientists, Martin Marietta is proud to be a part of the extraordinary NASA and Goddard Space Flight Center team.

What they learn in space today will safeguard the quality of life on Earth tomorrow.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Chairman*



HAPPY NEW YEAR

THE BEGINNING of the New Year is an appropriate time to reaffirm hopes for 1995 that the new Congress will carry out *its* resolutions: to govern responsibly; to fulfill the

Contract With America; and to perform so well that the American people will regain their faith and pride in one of our most venerable institutions—the Congress.

HONG KONG: TWO-AND-A-HALF YEARS AWAY FROM CHINA

TWO-AND-A-HALF YEARS before being turned over to the People's Republic of China, Hong Kong is calm, very prosperous and seemingly neither worried nor alarmed about the prospect of Chinese sovereignty.

Foreign, domestic and public investment funds are still pouring in. These are financing office and hotel towers, shopping complexes, apartment buildings and huge reclamation projects that will fill more of one of the world's busiest harbors and create additional land for even bigger buildings that eventually will block unparalleled views.

The convention center, although only seven years old, is being doubled in size. The new airport—the world's largest civil engineering project—is on schedule, and the Chinese have finally agreed to the plan financing it. Incidentally, the airport project includes a large suspension bridge, a tunnel, highways and railways. The airport, the reclamation projects and the other construction under way will employ half the world's dredging capacity.

Hong Kong, one of the world's largest financial centers, is already helping to finance China's economic expansion. Of the 14 Chinese state companies floated so far, 12 are listed on the Hong Kong Stock Exchange—the second largest in Asia. Hong Kong expects to finance much of South China's development. Shanghai is also competing with the U.S. and London to supply additional amounts of capital China will need into the next century. China already has many large banks, but clearly it will need Hong Kong's expertise and ability to raise and manage capital for years to come.

Emigration from Hong Kong has leveled off since the first flurry of departures that occurred when the Sino-British Joint Declaration was signed. Now Hong Kong has negative unemployment so labor is being imported. Despite this enormous economic activity and a growth rate of 5.7% in 1994, inflation is being held to moderate levels (in the third quarter of 1994 it was 8.9%).

Is there any cloud over Hong Kong's magnificent skyline? Only the same one that has been there since the basic agreement was signed: What kind of China will take over in 1997? Everyone Kip Forbes and I talked to on our

recent visit is optimistic. They ground this optimism on several beliefs: The Chinese are too intelligent and too sharp a business people to do anything that would disrupt the enormously powerful economic engine that is Hong Kong; the Chinese have promised to allow Hong Kong great autonomy and to keep its basic system intact for at least 50 years; China wants the Hong Kong takeover to succeed, to show Taiwan and the world that a dual system under Chinese control will work; China is experiencing the benefits of a free-market system and will never go back to the bad old socialist days; and similar arguments.

But the cloud remains: What if, after Deng Xiaoping goes, the hard-line communists who have always been his opponents take over? China has already flexed its muscles in various unpleasant ways. It attempted to block the airport project and threatened to make major changes in the plan after 1997; China sees a conspiracy to exhaust Hong Kong's treasury in every project; it objects violently to every attempt by Hong Kong's Governor Christopher Patten to bring some democracy to Hong Kong. (A current joke is that the governor will be the first person to use the new airport—to depart at 11:55 p.m., June 30, 1997—five minutes ahead of the arriving, still-angry new Chinese sovereign.)

Mrs. Anson Chan, the very bright and vital chief secretary (head of the civil service and deputy governor, and the first woman to hold this top post), believes the Chinese will order some highly visible, dramatic changes immediately to show that they are in charge, and then will let Hong Kong continue to be Hong Kong.

The key phrase, she says, is "long term." In the short term there may be some Chinese-ordered disruption (perhaps an order for everyone to drive on the right-hand side of the road?), but that for the long term, Hong Kong will still be prosperous, secure and beautiful and will remain the enormously strong, aggressive economic engine it is now.

That is what most hope and believe, but it would be unwise not to recognize that China could try to force the dead hand of a socialist economy on Hong Kong and thereby ruin it.



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Strong trade up north

Expanding free trade in North America will accelerate trade's dominance of the Canadian economy.

THE COMBINATION of the January 1989 signing of the Free Trade Agreement with the U.S. and a weaker Canadian dollar have made Canada the most dependent of all industrialized nations on trade. Hitherto Germany held that title. In 1994, Canada booked imports plus exports (of both goods and services) equal to an estimated 55% of GDP, well ahead of Germany's 47% of GDP.

Canada's goods-and-services trade was a strong \$12 billion in surplus, although invisibles (including interest on the country's sizable external debt) knocked the current account balance into a modest deficit.

Most of Canada's trade is with the U.S. (*see chart, left*). The largest trading partnership in the world, U.S.-Canada trade is growing fast. "The two-way trade in merchandise goods alone is growing by \$900 million a week," says Brian E. Morrissey, commercial minister at Canada's Washington embassy.

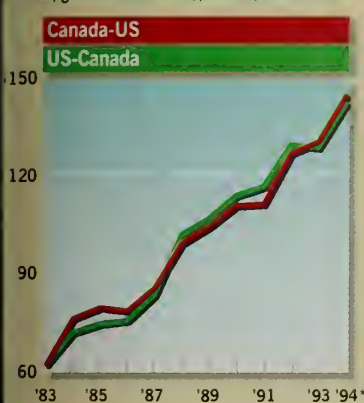
The extra trade added since the FTA was signed is now more than Canada's total trade was in 1991 with all industrial countries outside the U.S.

Canada has also experienced a sharp increase in foreign direct investment (*see chart*), as countries expand there to gain access to a liberalized North American market. The biggest investor country into Canada remains the U.S., but Japanese and British businesses have also been pumping money in.

Canada's fortune has not been at the U.S.' expense. The two countries maintain roughly an overall trade balance. The U.S.' deficit in merchandise goods trade is almost exactly offset by a strong and rising surplus in trade in services.

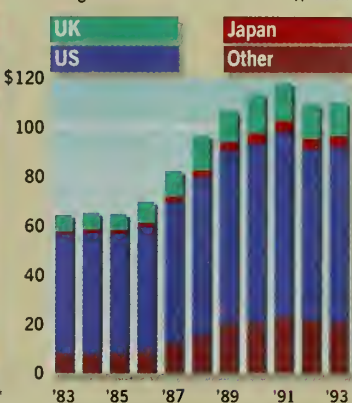
Free trade works

U.S. trade, goods and services (\$billions)



Estimate based on first nine months.

Foreign direct investment in Canada (\$billions)



Source: Statistics Canada.

Get ready for a bond market rally

"I'M LOOKING FOR A GOOD BOND RALLY later in 1995," says Martin H. Barnes of Montreal-based Bank Credit Analyst.

Isn't Federal Reserve Chairman Alan Greenspan signaling that he'll soon raise rates again, for the seventh time since February 1994? Yes, says Barnes, but look beyond the few months immediately ahead, and that's good: "The long-run perspective is that the Fed will be continuing to do the bond market's bidding, reassuring the market that he will not allow a major inflation cycle to develop."

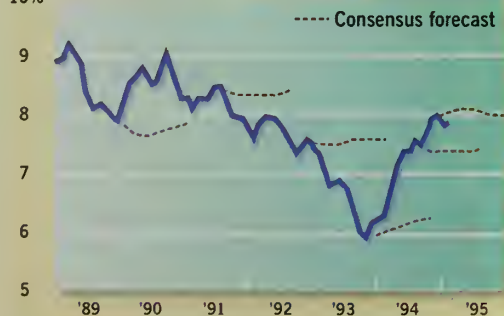
These days the conventional wisdom holds that long rates will plateau at around 8%. This consensus view is exemplified by the forecasters who put together the Blue Chip Economic Indicators. But Barnes has compared past Blue Chip forecasts with what actually happened, and concludes that these forecasts are always wrong and always miss major bond market turns (*see chart, right*).

To cash in on falling long rates (he expects maybe 7% later in 1995), Barnes says investors who can look beyond the near-term uncertainties should be ready to start buying bonds, including 30-year Treasuries, now. But he leaves himself an out. If the Fed fails to boost

interest rates decisively, and so fails to convince the bond market of its determination to contain inflation, and/or the economy remains much stronger than expected in 1995 (with growth sustained by rising exports, for example), then, concedes Barnes, the bond market rally will happen later than he now predicts.

Missed every time

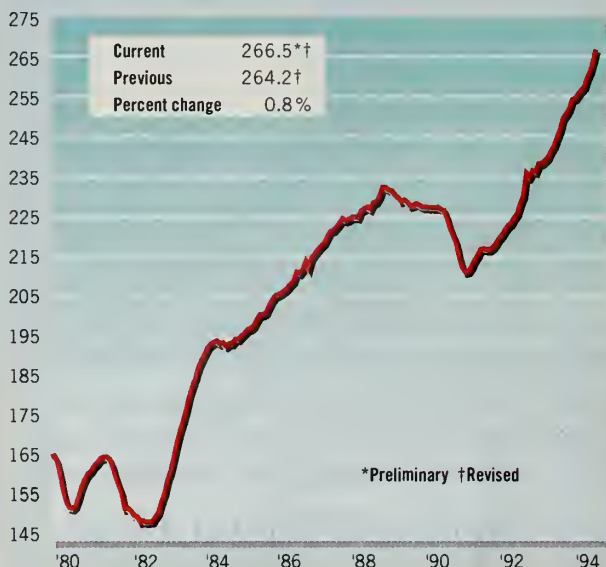
Long-term Treasury yield
10%



Sources: The Bank Credit Analyst; Blue Chip Financial Forecasts.

Forecasters always guess that interest rates will stay flat and are always wrong.

The Forbes Index (1967=100)



Nearly 125 million Americans now have jobs, up from 122 million in January 1994. Wages and salaries rose 1.4% from September to October, to nearly \$3.4 trillion. This has helped put consumers in a spending mood; purchases made with credit cards are up 23% this holiday season over last. The Federal Reserve's rate hikes will make credit cards linked to an index (such as the prime rate) more expensive. But Rudolph Masi, vice president at MasterCard International, predicts competition will force issuers to keep rate hikes to a minimum on other credit cards.

Other key rates

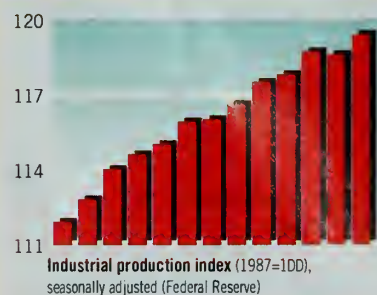
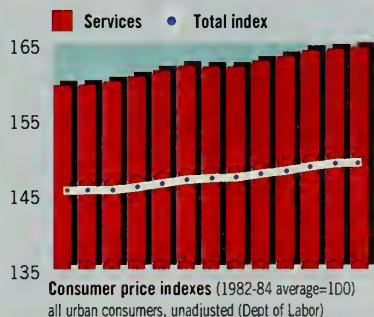
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1993 ¹	Ward's Automotive	7.6%
Index of leading indicators Oct vs Sept	Dept of Commerce	-0.1%
Trade balance ² 12 months ended Sept 1994	Dept of Commerce	-\$102 bil
All-commodity producer price index ³ Nov vs Oct	Dept of Labor	0.5%
GDP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	3.9%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	-0.2%

¹ U.S.-based manufacturers, excludes imports, as of 11/30/94. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



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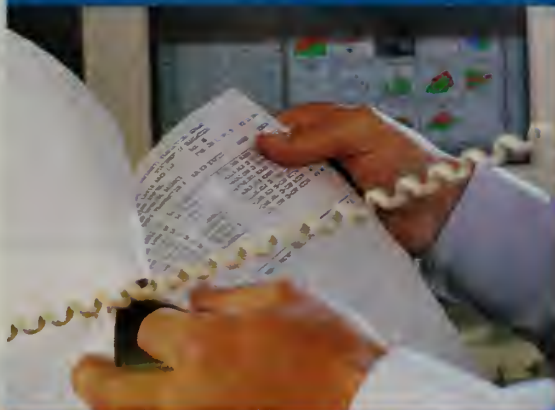
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AND EMERGED.**



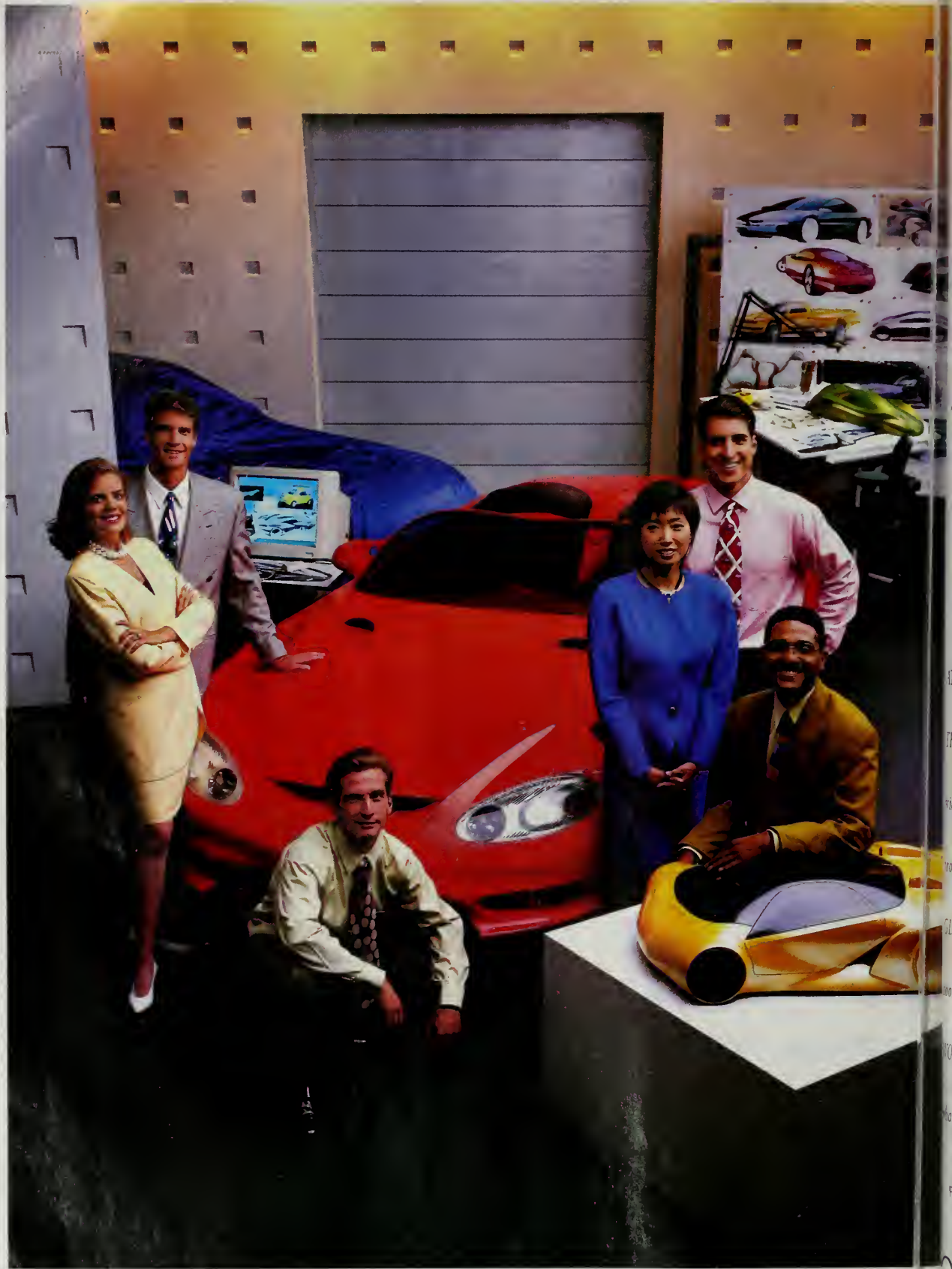
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— SUSAN K. WESTFALL, DAVID HILTON, GARY BRADDOCK, SOO KANG, PAUL ARNONE, AARON WALKER —

IF YOU WANT TO KNOW WHAT CARS AND TRUCKS WILL BE LIKE IN 2005 TALK TO SOME OF THE PEOPLE WHO *LIVE THERE.*

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QUALITY IS JOB 1SM

A lot of young people are starting to rock to a different beat: Christian music has moved into the popular mainstream.

Rocking with God

By Lisa Gubernick and Robert La Franco



Rocking to the Newsboys' John James (inset)
Forget sex and drugs. Try virtue with a backbeat.

THE CROWD at the Los Angeles Universal Amphitheatre screamed as the Newsboys, a six-man rock band, took the stage. Halfway through the first set, lead singer John James, shaved head glistening under the spotlights, gazed heavenward, then broke into "Turn Your Eyes," his version of a well-known church hymn.

Church music? At a rock concert? Welcome to the world of Christian music—rock, with a message. Forget about sex, drugs or killing policemen. The lyrics talk virtue and faith with a heavy backbeat. In Christian rock, "that kind of girl" isn't the one with the tightest skirts; she's the one with the strongest faith.

While still a relatively small part of the \$10 billion music industry, Christian music is no longer relegated to religious bookstores' back shelves. Acts like DC TALK, a Christian rap group, or Bride, who play Christian heavy metal, are now in mass market retailers such as Target, Wal-Mart and Kmart. In record sales and concert tickets, Christian music probably grossed \$1 billion in 1994. Between 1992 and 1993, the only years for which such figures are available, Christian music sales in the mainstream market grew by 40%, according to an audit commissioned by the Gospel Music Association.

Next month, SoundScan, the sales

tracking system used by *Billboard*, will be in some 200 religious bookstores, where much of this music is still sold. Once this happens, a number of Christian acts will most likely hit *Billboard's* Top 200.

Amy Grant, a young gospel singer, was the first Christian act to hit big. After seven years of selling her albums solely in Christian bookstores, she signed a distribution deal with A&M Records to go mainstream. Her first A&M album went platinum.

In 1991, when Sparrow Records sold 1 million copies of *The Champion*, by Carman, an inspirational Tom Jones, the big labels took note. "We saw it as a niche that was reaching a

growing constituency," says James Fifield, president of EMI Music. "We thought it was undermarketed; if we exposed it, it would grow."

So in 1992 EMI purchased Sparrow. Then Bertelsmann Music Group bought 50% of Reunion Records, which distributed Michael W. Smith, a West Va. Christian rocker. Last October EMI bought the Newsboys' label, Star Song. Warner Bros. and Sony, meanwhile, have launched their own Christian divisions.

"With EMI behind us we have been able to break through barriers in the general market," says Sparrow's founder, Billy Ray Hearn. Recently Sparrow ran a promotion with Blockbuster Music outlets, labeling as "contemporary Christian music" merchandise previously tagged "inspirational" or "sacred." Since the new promotion, sales are up as much as 10%.

Ten years ago there were fewer than 200 stations playing contemporary Christian music. Now there are over 500. This year seven Christian albums were certified gold or platinum.

"I said in 1978 that country music would be major music, and look at what's happening. The same thing will happen in gospel," says Jimmy Bowen, Sparrow's cochairman.

Whereas traditional rock music questions traditional values, Christian rock promotes them. "Secular bands ask the questions Christian bands answer," explains Gary Landon, a Christian rock aficionado who works at a Texas bank and moonlights as a disc jockey.

MTV revived the market for rock, and Country Music Television did similar commercial wonders for country. Now the Z Music Television channel is poised to do the same for the Christian market. Last May Gaylord Entertainment Co., Country Music Television's parent, took over management of the Z channel and increased its subscriber base 50%, to 15 million homes.

"With Z, our managers can tell the city councils that we provide two types of video music," says Mark Weber, president of Sammons Communications, a Texas cable company. "Parents have a choice. Plus, to tell you the truth, it's not bad music."

Richard Branson is young, energetic and a billionaire. He'll need all those advantages to make a go of Virgin Atlantic airline, while giving Pepsi and Coke a go in branded colas.

Brand-name Branson

By Peter Fuhrman

MAYBE IT'S his casual attire or his Lenin-style beard, but 44-year-old Richard Branson has made becoming a billionaire look easy. He started a teen magazine at age 16, a record retailing chain at age 19, and two years later added his own record label. When Branson sold the label to Thorn-EMI in 1992 for \$900 million in cash, he personally pocketed \$515 million on the deal. He reaped hundreds of millions more when he sold majority control of his Virgin record retailing chain, and his Virgin computer games business.

But Branson wasn't retiring. He was, he said, clearing the decks to concentrate on Virgin Atlantic Airways, the airline he started in 1984.

The airline badly needed his money and his marketing talents. In fiscal 1992 (ended Oct. 31) privately owned Virgin Travel Group—which owns the airline and a highly profitable package tour business—lost big money. It made a tiny profit in 1993 on revenues of \$614 million, but sank back into the red in fiscal 1994. To cover the losses Branson has lent \$50 million of his own money to the airline in the last two years.

Branson isn't worried about the money. "The worst is definitely over," he predicts during an interview in his modest second-floor office in a Victorian mansion in West London. "My guess is the airline is now worth at least as much as the record company when I sold it."

For the most part Virgin's losses have reflected the intense competition in transatlantic travel. Some 85%

of Virgin's seats are to U.S. destinations from Heathrow and Gatwick. Competing mainly against tough American and United, plus a much revitalized British Airways, Virgin has increased its share of the North Atlantic market—but only by cutting fares aggressively in economy class. Virgin's revenues per passenger flown are lower than three years ago.

Knock Coke into second place in the U.K.? Branson is serious. "We're already earning a million pounds a week in profit."

The good news for Virgin is a big increase in the number of passengers flying in Upper Class, as Virgin calls its business class section. Offering quirky extras that include in-flight massages, Virgin is filling over 85% of its very profitable Upper Class seats between the U.S. and Britain.

Branson will soon be in the market for some new Boeing 777s. Says Branson: "They'll allow us to make good money flying from London to places like Washington, Las Vegas, Chicago and Philadelphia."

Earlier this year Branson signed an unusual joint-marketing deal with Delta Air Lines under which Virgin in effect sells blocks of seats to Delta at wholesale prices and Delta markets them at retail through its vast U.S.



marketing network. Delta has agreed to buy some 200,000 seats—22% of Virgin's total—this year on Virgin's flights between Britain and the U.S.

The deal gives Delta something it badly needs: access to Heathrow, Europe's busiest airport. It gives Virgin badly needed distribution, easing pressure on its own sales network.

But the deal is still pending. The U.S. Department of Transportation is withholding approval, to put more pressure on British authorities to increase the access for U.S. carriers at Heathrow. If London yields to Washington, Delta will want to grab some of those slots and may well pull out of the joint-marketing deal with Virgin.

Hand it to Branson: He bristles with ideas. Over the last year he franchised the use of the Virgin name to two European startup airlines flying London/Athens and London/Dublin. Virgin gets a cut of the revenues; the startup airlines get to use a

Earlier this year Branson signed an unusual joint-marketing deal with Delta. Virgin sells seats at wholesale, and Delta markets them at retail.

well-regarded brand name.

Pleased with the success of these airline licensing ventures, Branson is now expanding the range of products carrying the Virgin brand. He has licensed the Virgin name for use on personal computers, and has set up joint ventures to market Virgin vodka and Virgin cola. "So, out go my plans to concentrate only on running the airline," Branson giggles.

Based on early returns, Branson's cola business looks like a big success.

The Virgin drink is manufactured by Branson's joint-venture partner, Canada's Cott Corp., which also makes supermarket-brand colas in the U.S. (FORBES, May 25, 1992). Virgin Cola went on sale in Britain in November, priced 25% below Coke and Pepsi. Within a month the Virgin brand had captured 15% of the cola market, according to Branson.

"We're already earning a million pounds a week in profit," says Branson. "It's realistic that [in Britain] we'll overtake Pepsi's market share very soon, and eventually knock Coke into second place. Within a year or two, this business will be worth at least half a billion dollars."

Knock mighty Coke into second place in any market? Branson is serious: "When I announced plans for the cola, I heard a Coke executive's response was, 'We have nothing to worry about. Coke has been around for 100 years.' Well, most things that have been around for 100 years no longer look very good, do they?"

Branson says his overhead is so low that he can match any price cuts Pepsi and Coke might throw Virgin's way. Next up, Virgin Cola's in France, Japan and Australia, where the Virgin name is well-known.

Somewhat offsetting the cola success, Branson was recently embarrassed when his Japanese partner in a real estate venture to build a 600-room hotel in the old London County Hall building across the Thames from Parliament decided instead to build a cultural center on the site. The hotel plan was linked to another of Branson's schemes: expanding into rail service. The County Hall building is 100 yards from the newly opened London terminal for the Channel Tunnel train. In March Virgin, in partnership with construction giant Bechtel Inc. and the British investment bank S.G. Warburg & Co., will bid to take over the running of all British train services from the state-owned rail network. "I'm very confident we're going to get the license," Branson beams.

"What does the Virgin name mean?" Branson rhetorically asks a visitor. "We're a company that likes to take on the giants. In too many businesses these giants have had things their own way. We're going to have a lot of fun competing with them." ■

For years small investors have been taken to the cleaners by the likes of Robert Brennan and Eugene Mulvihill, but Pamela Harriman and her high-powered advisers should have known better.

Amiable dunces

By Matthew Schiffrin

WE GATHER that Pamela Digby Churchill Harriman, the Washington party-giver who is currently Bill Clinton's ambassador to France, has never been a reader of *FORBES*. Neither, apparently, have her big-name financial advisers. Had they been, they might not be involved in a particularly nasty lawsuit.

In September the children and grandchildren by an earlier wife of former diplomat and financier W. Averell Harriman sued Pamela, Clark M. Clifford, Paul C. Warnke and adviser William Rich III, alleging that they breached their fiduciary duty by squandering nearly \$30 million on bad investments.

Guess how Pamela Harriman and her fellow trustees lost most of the money? By investing with none other than the notorious Robert Brennan, the penny stock operator who has been the subject of two *FORBES* cover stories.

Most of the losses stem from an investment made by the Harriman trust in a resort hotel in the hills of northern New Jersey. Called the Seasons Resort, the hotel was controlled by Robert Brennan and an equally sleazy associate named Eugene Mulvihill. *FORBES* first warned investors about Brennan and Mulvihill in March 1982. Since then this magazine has published no fewer than a dozen articles, including covers in 1984 and 1992, detailing how Brennan and associates bilked thousands of investors out of millions of dollars while lawyers fought the Securities & Exchange Commission to a standstill.

Apparently the Harriman family was sucked into the Brennan/Mulvihill maw through adviser Rich, the man Clifford had entrusted with the

Harriman heirs' future. In early 1989, long after *FORBES* had spread Brennan and Mulvihill's misdeeds across our pages, Rich put \$5 million of the Harriman money into the resort hotel, which was mostly owned by Mulvihill and Brennan and a company they controlled, Great American Recreation. That was followed by further investments, until the Harriman trust had invested \$20 million, the majority of its assets, in the Brennan/Mulvihill property.

A few months ago cotrustee Clifford alibied to the *New York Times*, "Back in 1989 neither name [Brennan or Mulvihill] meant anything to me." Curious. The famed liberal attorney alleged a similar lack of knowledge about his own deep involvement in the BCCI scandal.

It is difficult to imagine how Clifford, Rich and the other trustees could have been ignorant of Brennan's, Mulvihill's and Great American Recreation's backgrounds. Never mind *FORBES*. A glance at the publicly available information would have alerted anyone with even a modicum of financial savvy.

Great American's 10-K discloses that its main businesses, the ski resort and the amusement park, have been operating without liability insurance since the company canceled its policies in 1986. Prior to that Mulvihill got in trouble for creating a bogus insurance company to provide the resort with insurance. In 1984 he pleaded guilty to six felony fraud counts and was banned from the brokerage business for life by the SEC.

In March 1988, nearly a year before the Harriman estate began sinking money into Great American Recreation's Seasons Resort, four tobogganers were injured in a sledding accident. Last February a jury awarded them \$1.3 million. Great American is appealing the verdict, but if it is forced to pay, the company could end up in bankruptcy.

Great American currently has about \$27 million in revenues, \$52 million in total liabilities. When the Harrimans made their initial investment in 1989, Great American was

Brad Markel/Gamma Liaison



TOP TO BOTTOM:
Ambassador
Pamela Harriman,
Robert Brennan
and Clark Clifford
**The climber,
the stock flogger
and the dupe.**



Diana Walker/Gamma Liaison



hemorrhaging money and since 1987 it has accumulated net losses approaching \$40 million. It plainly stated in its 1988 10-K that it had difficulty meeting its obligations.

Other than by Harriman's generous cash infusions, Great American has been funded mostly through many small debt and equity underwritings marketed by bucket shops like Hibbard Brown, F.N. Wolf and L.C. Wegard, all identified by FORBES as Brennan associates.

Great American's share price has sunk from around \$14 in late 1988 to a recent 12½ cents per share. No wonder the Harriman heirs are suing.

Did Mulvihill and Brennan go down with the ship? Dumb question. Having gotten their own shares for pennies, the pair sold out well before the collapse. At one time Mulvihill controlled 50% of Great American and Brennan over 20%. By late 1993 Brennan and Mulvihill had apparently sold out. Mulvihill, 60, disposed of over 400,000 shares at prices ranging from 68 cents to \$2.50. His 34-year-old daughter, Julia Mulvihill, remains as the chief operating officer.

And, top this: In mid-1990 Harriman adviser Rich, a former Morgan Guaranty trust officer, reportedly began to threaten Mulvihill with litigation. But Rich's attorneys apparently persuaded Rich to agree to let the dispute be mediated by, guess who: Robert Brennan.

Was Clark Clifford as unknowing as he claims? Maybe, but it's interesting to note that BCCI-controlled First American Bank lent \$5.5 million to Great American in 1990 while the Harriman money was being pumped into the resort. First American got its money out in November 1990, after Mulvihill and company sold the resort's 27-hole golf course to Japanese investors for \$20 million.

Clifford was extremely close to Harriman: It was at a party at her Washington mansion that Clifford drew laughter and ensuing liberal plaudits for labeling ex-President Ronald Reagan "an amiable dunce."

Dunce himself or culpable, Clifford let his old friend down. Can we hope that in negotiating with the French on behalf of the U.S. Pamela Harriman shows better judgment than she did in picking financial advisers? ■

What's it like to do business in Russia?

To get a gritty glimpse, ride along with us and a load of furniture from Moscow bound for Siberia.

On the road to Novosibirsk

By Craig Mellow

AT FOUR O'CLOCK on a foggy morning, our Soviet Kamaz 14-wheeler breaks down. We're nine hours east of Moscow and seven days from our destination, the Siberian city of Novosibirsk, where we're bound with a load of living room furniture imported from Europe. The nearest truck stop, if you can call it that, is in the muddy hamlet of Nizhny Lom, 300 miles farther east along the two-lane, unlit highway Russians call their M-5.

Our driver, Vladimir Afonin, works under the Kamaz's hood by the light of his cigarette, while our security

man, a 30-year-old former gymnastics coach named Anatoly Urusov, pats the pistol—a bulky 9mm Makarov—under his coat. "Everybody who does this [security] work is just trying to survive," he says in the predawn chill.

The old Soviet economy collapsed, in good part, because it never developed a modern distribution and transportation system. I'm tagging along on a truck belonging to Dimitri Sitnov, the entrepreneurial founder of a three-year-old trucking firm, to get an idea of how things are going as this vast country grows new tentacles of



transport. Vladimir Belyayev, who was commissioned to design a national depot system, estimates that shipping costs represented over 30% of the total cost of a product in the U.S.S.R., roughly three times what it costs in a capitalist economy.

The old state-owned transport monopolies had no incentive to worry whether a cargo made it in good shape to its destination—or made it at all. The markets of Almaty, in Kazakhstan, might be full of beautiful apples, and the people of Moscow might be starving for apples. Let the apples rot in Almaty. Nobody much cared.

The corrupt, couldn't-care-less state trucking monopolies are now being driven off the road by what Russians call *kustarniki*, or cottage industrialists. The truck I rode in belongs to Dimitri Sitnov's Onyx Trucking, one of these *kustarniki*.

Educated as a geologist, Sitnov worked during school as a driver and mechanic. In 1991 he bought three army surplus trucks; a year and a half later he traded up to big Kamaz rigs, the top Russian long-haul vehicle. Flourishing, Sitnov bought a two-room apartment on Moscow's outskirts, where he lives with his wife and

daughter. His personal vehicle is a 1993 Mitsubishi Pajero 4x4.

If things can go wrong for Sitnov and Onyx, they usually do. Early in November, Onyx had two trucks loaded for Lithuania. Then the owner of the goods suddenly disappeared. Soon thereafter a deal to move metals to the Latvian border fell through. Why? Replies Onyx's enterprising marketing manager, Andrei Dvorchensky: "We don't really like to associate with criminals."

The rig I was riding in arrived for its load of Spanish living room sets in late November. But the agent for the customer noticed the tarpaulin had gaping holes. In the old days the trucker's customer would have had two choices: shrug and accept that half the stuff would be ruined on the way, or let it sit for weeks or months until another pickup could be scheduled. Even then, no guarantee. The next tarp might be worse.

But this was postcommunist Russia. The agent demanded a new tarpaulin. By the time a new tarp could be secured, the warehouse had closed for the day. Onyx driver Afonin returned the next day and sat around for several hours before his load, which now included me and Makarov-toting Anatoly Urusov, could set out on the eight-day trip to Novosibirsk. An American outfit operating like this would be bankrupt in a week.

As Afonin repairs the clogged fuel lines, Urusov tries to reassure me this close to Moscow we're probably safe from bandits. "It gets dangerous farther out, in Siberia," he says. "There, if you don't know a safe place to stop,

you keep driving, day or night." Urusov probably enjoys scaring a foreigner and, besides, he must justify his job. People who know the roads say they are not as bandit-infested as some of the wilder stories would have it.

When the truck reaches the Siberian badlands, Urusov will get support from his older brother, Alexander, who'll be riding shotgun with his Remington 12-gauge on another *kustarniki* truck. At \$41 a day each, the brothers are among Russian transport's cheaper security options. Heavier firepower can be hired directly from the Interior Ministry at \$150 to \$200 a day—nearly a month's wages based on official figures and current dollar/ruble rates.

By dawn Afonin has repaired the fuel lines, and we're on the road again. Watching him, I think of Humphrey Bogart and George Raft in *They Drive By Night*, the part where Bogie falls asleep at his truck's wheel, goes over a cliff and loses his arm. But Afonin is used to tough hauls. Five hours later we rattle into Nizhny Lom, a dreary pit stop where Afonin gorges on steaming cabbage soup, goulash and kasha, buys five packs of L&Ms from a store that stocks little else, and decides to catch a couple hours' sleep. I hop a ride in an automobile back to Moscow.

Later I hear the rest of the story. The most direct route to Novosibirsk passes briefly through the northwest corner of Kazakhstan. There our driver was halted by customs authorities intent on shaking him down. Two days later Afonin was still there, awaiting a letter proving he was merely passing through the republic.

For all this Afonin will earn around \$156—about \$10 a day, including the return trip. He has a shot at doing better if he can hustle up a load to bring back to Moscow. This is unlikely, says marketing manager Dvorchensky, because the Siberian companies still tend to use the old state-owned truckers.

Onyx charged 6.8 million rubles, a little less than \$2,200 at current exchange rates. In the U.S. such a round-trip would cost \$3,500, but of course current exchange rates don't reflect purchasing power parities. In purchasing power terms, the Russian load cost many times what an equiva-

Left, Onyx Trucking driver Vladimir Afonin and security man Anatoly Urusov; owner Dimitri Sitnov
Afonin can handle the rigs and Urusov the bandits, but Sitnov most needs defending against bankers and Russia's highway bureaucrats.



lent U.S. load would cost.

Dimitri Sitnov has big ambitions. This September he took ten of his best drivers to Holland and returned happily with ten slightly used Mercedes-Benz rigs, which he bought for \$650,000 in borrowed money. The Benzes mean access for Onyx to international shipping: Kamazes and other Russian-made trucks belch too much exhaust to be allowed west of Poland. When he returned from Holland, Sitnov brandished a contract to carry regular loads of mayonnaise from Düsseldorf to Moscow.

Sitnov's happiness was short-lived. For two months the Benz trucks have sat idle on Sitnov's Moscow lot because he cannot obtain licenses from the GAI, or State Auto Inspection,



Security man Anatoly Urusov
Up against crooked bureaucrats.

Russia's notoriously corrupt highway police. The idle Benzes cost Sitnov about \$20,000 a month in financing costs, much more than Onyx can earn from its Kamaz fleet. And Sitnov's bank is said to be the kind that settles delinquency by more direct means than Russia's creaky courts of arbitration. If Sitnov isn't careful the bank will simply grab his trucks.

"Things are very complicated right now," the ever optimistic Sitnov admits. He means for Onyx Trucking, but it's true for all of Russia. You don't turn a totalitarian nation into a free one simply by changing the guys in the government ministries.

For-profit DeVry offers a college education for about half what taxpayer-subsidized state universities charge. Does that constitute unfair competition?

Competition? Heaven forbid

By Leslie Spencer

ROUGHLY 27,000 high school graduates attend one of DeVry's 13 campuses scattered throughout the U.S. and Canada to earn associate and bachelor of science degrees in fields like electronics engineering technology, computer information systems, business operations, accounting and telecommunications management. Another 3,000 students earn their M.B.A.s or other graduate degrees at the 17 sites that are maintained by the associated Keller Graduate School of Management.

But DeVry isn't just another university. It is a publicly traded company (Nasdaq: DVRY) charging \$3,000 a semester in tuition, or \$24,000 for a B.S. This is almost half what a B.S. costs at some big state universities and about a third what it can cost at a private college. Yet DeVry has shown solid earnings and steady growth since going public in 1991.

DeVry is not beloved of many in the educational establishment. At a time when both state and private colleges are constantly dunning the public and alumni for more money, DeVry underprices them and is entirely independent of tax subsidies and private donors.

DeVry Inc. may not be unique for long. Apollo Group is parent company to the for-profit University of Phoenix, which focuses on adults who need to complete degrees or get new skills. Apollo filed for an initial public offering in September. ITT's education division, which offers technical associate degrees, is also thinking about a public offering soon.

DeVry has set a standard the others

apparently want to follow. Its June 1994 fiscal year net profit was \$12.2 million, up 30% from the previous year, on revenues of \$211.4 million. Net income was up 21% in the first quarter, ended September, from last year's first quarter.

Chicago Corp., an investment bank, managed DeVry's second public offering last year, offering 1.8 million shares at \$22 a share (the stock is now 28 $\frac{3}{8}$). Chicago Corp. analyst Steven Saltzman boasts: "DeVry has done nothing but meet or beat our estimates."

The educational establishment has long thrown roadblocks in the way of

DeVry is criticized for its lenient admissions policies. When public colleges do the same thing they are praised for "open admissions."

for-profit schools by withholding accreditation—the seal of approval required for a school to receive student loans and grants. Any school seeking to make a profit was automatically denied the seal. That rule was dropped, and in 1977 DeVry's Keller Graduate School of Management was accredited. Accreditation for DeVry followed in 1981. But even now, accreditation remains a key hurdle for any new school attempting to enter the post-secondary market.

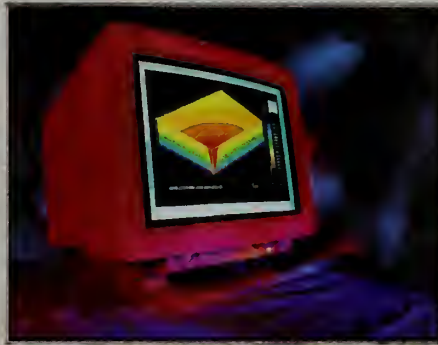
Many schools that operate for-

It's amazing how little damage a fire will do when it's contained in this small area.

NO ONE REALLY KNOWS AT WHAT PRECISE point fire was first discovered. But for the sake of argument, we'll assume it didn't take much longer to discover how destructive it can be.

GENERATIONS HAVE been trying to understand fire, to control its potential, and to minimize the damage it can cause to property. Which is why, throughout our history, we've worked to understand the effects of fire through our partnership with Factory Mutual Engineering & Research.

WHILE BEST RECOGNIZED FOR LARGE-SCALE fire testing, we have also worked for well over a century developing new technologies to control fire and help our customers reduce its damaging effects. It is an effort that has resulted in countless innovations.



A CASE IN POINT: FOR CLOSE TO TWO decades our scientists have developed sophisticated computer models that create simulated fires in a given environment. These models analyze a range of probabilities, determining the likelihood of a particular event occurring, and the impact of the available protection alternatives. They also evaluate potential routes the fire may take and the effects of heat and smoke. All on a computer screen no larger than this

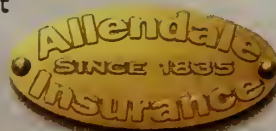
page. All without ever having to ignite a fire.

OBVIOUSLY, THIS EFFORT HAS helped us better evaluate fires.

More important, the process has

helped us further understand each of our customers and to create cost-effective solutions tailored to each particular business.

WE BELIEVE AN INSURANCE COMPANY SHOULD do more than just insure your property. So we do everything in our power to help prevent losses, minimize damage from them, and eliminate the disruptions they can cause.





DeVry Inc. President
Ronald Taylor

Ninety percent of DeVry graduates have a job in their field within six months of finishing.

profit have acquired reputations as fly-by-night degree mills that stay in business just long enough to push up the notoriously high default rates on federal student loans. DeVry has long since belied the image. Critics still claim that the faculty isn't properly qualified in that many don't have graduate degrees. They say its admissions standards are far too lax. DeVry turns away only about 15% of applicants, essentially those who can't read or do basic math well enough to get through. Interestingly, when public colleges adopt similar admission standards, they are often lauded for their "open admissions policies." The fact is that DeVry's completion rates—about 40%—are in line with overall college and university averages.

DeVry's fall 1994 enrollment was up 2.7% from the previous year, thanks in good part to the school's 300 full-time recruiters, who spend much of their time marketing the company in high school classrooms.

Two trends are working in DeVry's favor: demographics and the bloated

costs of traditional colleges. Reversing a 13-year decline, as of 1993 more kids are graduating from high school each year, a rise that is expected to continue at least through the next decade. With parents facing college and graduate school tuition increases of 8% to 10% a year, DeVry underprices them and still stays at or above inflation with 5% to 6% increases.

One way DeVry keeps costs down is stunningly simple: It operates year-round, enabling a student to graduate in three years instead of four. For students from families of modest means the resultant savings mean a lot: Even with its lower prices, 90% of DeVry students work part time.

City and community colleges often charge less than DeVry, but DeVry has an edge over them in its excellent record of job placement. The compa-

ny's 1,900-person full-time staff includes over 100 placement officers. Employers like Hewlett-Packard, U.S. Robotics and the accounting firms Price Waterhouse and Deloitte & Touche work closely with DeVry faculty to help shape the curriculum. Ninety percent of DeVry graduates have a job in their field within six months of finishing.

DeVry Inc. President Ronald Taylor, 51, runs DeVry in close collaboration with Chairman and Chief Executive Dennis Keller, 53. They have been partners in the education business for over 20 years. As young men with M.B.A.s—Taylor's from Stanford and Keller's from the University of Chicago—they went to work for DeVry Institute of Technology, then owned by Bell & Howell. They left together in 1973 to form the Keller Graduate School of Management. After finally receiving accreditation in 1977, Keller's M.B.A. night program got the business rolling. A decade later they decided to branch out by acquiring DeVry from their former employer in a highly leveraged buyout (*FORBES*, May 27, 1991).

Until last July all excess cash flow went to pay off the company's acquisition debt. Now Taylor and Keller are using profits for expansion. Two new campuses opened outside Toronto and Los Angeles in July and November, and two more are scheduled in the next two years.

The school has also expanded the curriculum. New degrees in telecommunications management are attracting women, who currently make up only 22% of DeVry's students. Adults who have only an associate degree can now get a bachelor's degree at DeVry, receiving credit for previous college courses.

Where it can, the educational establishment still fights a rearguard action against DeVry and Keller. The company plans to start new campuses in New York State. The State Department of Education is "evaluating" the required 300-page application DeVry submitted last year. What for? Get this: The Education Department is afraid that DeVry's presence in Manhattan and on Long Island might create undesirable competition with existing institutions. What's so undesirable about competition?

Family Net Worth Statement

Assets

Estimated
Market Value

Personal Assets

Primary Residence	\$400,000 ¹
Other Personal Property	99,000

Investment Assets

Portfolio Assets	
Checking Accounts	15,000 ³
Savings Accounts	20,000 ³
Term Certificates	25,000
Money Market Funds	70,000 ⁴
Common Stocks	80,000 ⁵
Stock Mutual Funds	30,000
Corporate Bonds	110,000 ⁶
Government Issues	55,000

Other Assets

Business Ownership	250,000 ⁷
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Retirement Assets

Keogh Type Account	10,000 ⁸
IRA	4,500
Profit Sharing	12,000
Annuity	40,000

Liabilities

Primary Residence	
Mortgage	150,000 ⁹
Automobile Loans	42,000 ¹⁰
Credit Card Debt	7,000 ¹¹
Personal Loans	49,000 ¹²

Net Worth: \$972,500

This family just learned 12 ways to increase their wealth.

Here's how they did it.

Most people think of their assets and debts as unrelated, and that's the way they manage them—separately. Credit cards here, mortgage there, investments somewhere else. But, in fact, every single financial decision you make impacts your overall financial picture.

Instead, consider your finances as an integrated whole—your family's personal "balance sheet." When you put everything together, it's easy to see how things relate to one another, and that a move on one side can affect the other. That will help you make the moves that give you control of your finances, minimize your cost of credit, cut taxes, increase net worth and reach your financial goals.

1. Use home equity line of credit to pay off credit card and auto loan debts and convert to potentially tax-deductible debt. Use interest expense saved to help pay for son's college tuition.
2. Use central asset account to combine checking and savings accounts and increase yield with taxable or tax-exempt money market fund.
3. See number 2.
4. Too much short-term cash. Pay down some debt while money market rates remain less than after-tax cost of credit.
5. Consistent with personal financial plan, stock investments should be increased and diversified globally; greater growth needed for baby's college fund.
6. Too heavy in corporate bonds; should diversify and switch to some tax-exempt in-state munis to decrease taxes. Use savings to purchase more equities.
7. Is this the true value? Need a financial plan for business, including valuation and succession planning.
8. Underfunded here. Should increase contributions to help meet retirement savings goals.
9. Refinance now to get lower rate. Contribute savings to IRA.
10. See number 1.
11. See number 1.
12. Use securities-based line of credit to lower interest rate on personal loan. Add savings to purchase mutual funds.



Merrill Lynch



A Merrill Lynch "Grow Rich Slowly" Seminar #7 – Family Balance Sheet Management



"To build your family's wealth and control your future, look at both sides of your financial picture."

Judith Chipps,
Merrill Lynch Financial Consultant,
Vice President, Sherman Oaks, CA

Judith has 15 years of experience and helps clients invest more than \$180 million. Here she answers hypothetical questions about managing assets and credit together.

"I'm making good money, but I'm paying off so many loans I don't have anything to invest. How can you help?"
Mickey Sweeney

I know a number of simple things you can do to better manage your credit and increase your investable assets. First, let's get things down on paper and develop a formal financial plan based on your needs and goals, such as one available through the Financial Foundation® service. Planning

both your debts and assets means you'll be able to balance financial obligations and obligations to yourself.



Do you know how much you pay in finance charges on your credit card debt? Perhaps you could refinance your mortgage, combine your loans and put the difference in your retirement account. Do you have a non-interest-paying checking account? Close it out and put those funds to work earning dividends in a

central asset account that links your checking, investments and "cash flow" together. You'll control money, monitor investments and save time.

And to help build your net worth, consider an automatic investment program.

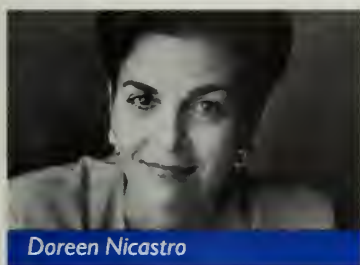
"I just want my investments to grow faster. Can a 'balance sheet' approach help?"
Doreen Nicastro

Yes. Everything you own and owe directly affects one another. If you can increase tax deductions or refinance your mortgage at a lower interest rate, you'll have more available to invest.

Of course, where and how you invest depends on your goals,



time frame for the future, near-term need for liquidity and how comfortable you are with risk. Based on that information, you can form a strategy. Minimize risk and maximize returns through an appropriate asset allocation strategy. You may reduce the impact of market fluctuations by including foreign investments and other asset classes in your portfolio.



Doreen Nicastro

The way you invest—using sophisticated techniques such as laddering bonds for income, buying and holding stocks for long-term growth, automatically reinvesting dividends and judiciously using a margin loan—can be just as important as your actual security selections.

"I run a fast-growing business—or rather, it's running me. How can I get more control?"

Julie Parker

By planning. A financial plan for your business can help you

manage both sides of your business's balance sheet more efficiently and effectively so you have time to focus on running your business. The plan will provide specific recommendations and help you prioritize your objectives. Do you have all the information you need to make vital business decisions? Have you analyzed your current and projected financial situation?

Do you have an overview of your industry? Have you taken your entire financial picture into account, from cash-flow strategies to equipment financing to retirement plans?

Time Changes the Balance			
Age	Total Assets	Total Liabilities	Assets/Liabilities Ratio
25-44	\$288,000	\$87,000	3:1
45-64	\$525,000	\$75,000	7:1
65+	\$775,000	\$29,000	27:1

Over time, your personal balance sheet changes significantly. Update your strategies regularly to ensure they suit your current situation.
Households with incomes of \$50,000+. Source: 1992 Data Monitor, Phoenix-Hecht/Gallup and SRI International.

Using the Merrill Lynch Business Financial PlannerSM service, it takes only a few hours to put all that information on paper. And using the plan, I'll

(Continued on next page)

Build Your Net Worth



6 steps to successful asset management

1. Find the best partner.
2. Plan.
3. Save regularly.
4. Diversify.
5. Maximize tax deferrals and matched contributions.
6. Start early.

6 steps to successful liability management

1. Find the best partner.
2. Plan.
3. Substitute tax-deductible payments for nondeductible payments.
4. Substitute lower-cost debt for higher-cost debt.
5. Consider the appropriateness of securities-based borrowing.
6. Investigate 100% home financing programs that let you pledge securities for a down payment, rather than disrupt your investment strategy.

On both sides of the balance sheet, finding the best partner, preparing a plan and putting it into action now are vital to your family's financial health. To learn more about Merrill Lynch's unique "balance-sheet" approach to helping our clients meet their goals, call 1-800-637-7455, ext. 8743.

Julie Parker



provide access to Merrill Lynch's business specialists in financing, retirement planning, insurance and succession planning, as well as services like electronic bill payment and funds transfer that will help you save time.

"I already have a broker and a bank. Why do I need a full-service firm?"
Wayne Rankin

Tell me—did you think about financing your child's education when you chose a mortgage? Did anyone help you research all the trade-offs and then implement your decisions? That's only part of what I can do for you.

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I don't work alone. I work with Merrill Lynch's specialists

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How well do you know these financial strategies?

Understanding financial strategies can help you better manage your assets and debts. Take this quiz to see if you know the definitions.

1. Asset Allocation

- a) dividing assets among domestic and international stocks, bonds and cash
- b) investing a fixed amount in different asset classes
- c) dividing assets among taxable and nontaxable investments
- d) including more than one asset class in a portfolio

2. Financial Planning

- a) meeting with a financial professional
- b) setting financial goals and putting them in writing
- c) completing a financial-planning worksheet or computer program
- d) assessing your total financial situation and establishing a framework to realize your goals

3. Dollar Cost Averaging

- a) calculating the average amount paid for an investment
- b) investing a fixed dollar amount at regular intervals so you buy more shares when prices are down and less when they're up
- c) a technique to figure out how much to withdraw each year from your IRA
- d) the average interest rate for money market accounts

4. Laddering

- a) buying bonds with varying maturities
- b) an asset allocation strategy
- c) a method of analyzing stock market cycles
- d) buying bonds of the same amount on a regular basis

5. Margin Loan

- a) the difference between what you pay for an investment and what you sell it for
- b) the interest charged on a credit card balance
- c) borrowing against securities you own
- d) selling one investment to buy another investment

The Answers: 1. a; 2. d; 3. b; 4. a; 5. c.

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Are you counting on a cut in capital gains taxes?
Here's what it may look like.

Tax cut watch

IS A CUT in the tax on capital gains just around the corner? Bet on it. House leaders Newt Gingrich, Richard Armitage and Bill Archer want it; Archer, the new head of the Ways & Means Committee, has for years made cutting taxes on gains his priority. And when Senate Majority Leader Robert Dole mentioned capital gains in connection with GATT, the Clintonites didn't exactly say no way.

So what would a cut in capital gains taxes look like? When would it take effect? What would be covered? "Nobody can read these tea leaves," says Kenneth Gideon, a Washington lawyer who, as a key Treasury official under George Bush, worked for a capital gains tax cut in 1989. Having said this, we realize that our readers must make plans, so we'll make a stab at what the future holds for capital gains taxes.

The starting point will probably be Ways & Means Chairman Archer's proposal, introduced in the last Congress as H.R. 3739. This is in the House Republicans' "Contract With America" platform.

The bill would exclude 50% of long-term capital gains from income. So if you make \$1,000 selling long-held stock, you would put only \$500 down on the front page of your 1040.

This exclusion would replace the current rule, which says that capital gains are fully included in income but taxed at a maximum 28% rate. So what's the tradeoff? Follow us through some arithmetic.

Most affluent taxpayers are now effectively in a 40.8% bracket on dividend income (39.6%, plus 1.2% from a convoluted deduction giveback). They pay 29.2% on net long-term capital gains. In the Archer bill their rate on capital gains would fall to 20.4%.

Middle-income people would do even better by Archer. Someone who is now in the 28% bracket on ordinary income (and doesn't itemize deductions) is also in the 28% bracket on gains; his rate on gains would fall to 14%. Low-income taxpayers would see a decline in the capital gains rate from 15% to 7.5%.

Archer's bill leaves in place the current holding period of one year for long-term gains; net short-term gains would continue to be taxed as ordinary income. The bill would repeal an existing 50% exclusion, enacted in 1993, for gains on certain small business investments. The bill would apply to virtually any kind of capital asset: stocks, real estate, artwork, etc.

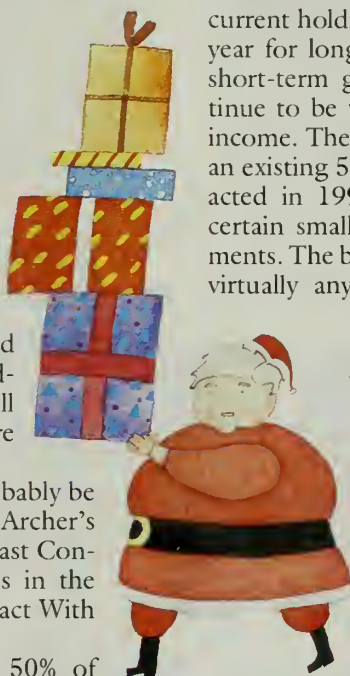
If long-term gains count for only 50 cents on the dollar, it stands to reason that losses count for only 50 cents on the dollar. This is

how the law worked in 1986 and earlier, and the Archer bill would restore the old rules. Thus, if you had \$5,000 in net long-term losses, under the proposed new law you could claim a writeoff of only \$2,500 against your salary. The annual cap for the deduction against ordinary income would remain \$3,000, which you could get with either \$3,000 of short-term capital losses or \$6,000 of long-term losses.

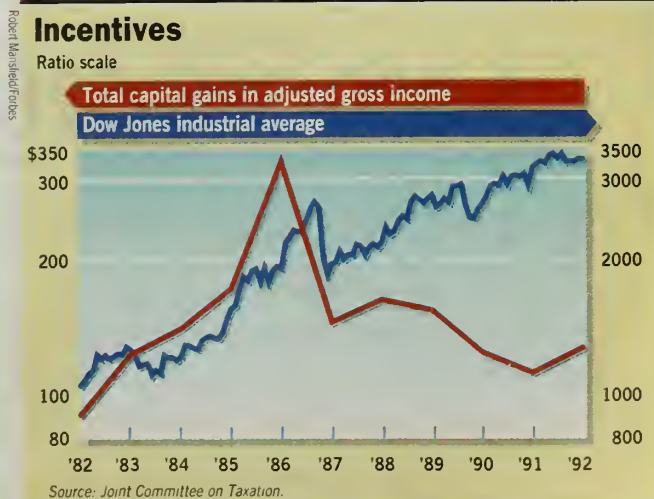
In addition, Archer does not want the 50% of long gains that are excluded from income to be added back for calculating the alternative minimum tax, a back-door tax increase. Senate Finance Chairman Bob Packwood may fight him on this.

What would the Archer bill cost the Treasury? Or would it cost anything? Everybody has theories, but nobody really knows what will happen. Capital gain income (*see chart*) is a function of many variables, including the current tax rate, investors' expectations about future tax rates, and the Dow. If a cut in the rate causes taxpayers to take huge profits they would otherwise have let sit, then Archer's bill is a revenue raiser, at least in the short term. If it stimulates investment and the economy, then a cut in capital gains taxes could conceivably bring in more, not less, money in the long range as well.

What about timing? The law will cover sales taking place after some effective date. Congress will either stick to Jan. 1, 1995, the date currently given, or, far less likely, make it



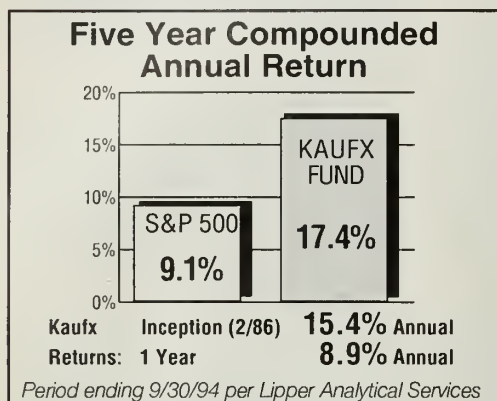
What determines the level of reported capital gains? The state of the stock market matters. So do tax rates—especially future tax rates. Profit-taking exploded in 1986 after Congress raised the top rate on gains from 20% to 28%, effective Jan. 1, 1987.



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** Morningstar ratings are subject to change every month and are calculated from the funds' three- and five-year average annual returns with appropriate sales charge adjustments and a risk factor that reflects performance relative to three-month Treasury bill monthly returns. Ten percent of the funds in an asset class receive five stars.

Total returns for periods ending September 30, 1994 are historical and include change in share price, reinvestment of dividends and capital gains. There is a 0.2% redemption fee and a 12b-1 fee in excess of 0.25%. The S&P is an unmanaged index consisting of the common stock of 500 publicly traded U.S. companies. For more information including charges and expenses, please read the prospectus carefully before you invest. The performance cited represents past performance which is not indicative of future results; investment performance fluctuates; fund shares when redeemed may be worth more or less than original cost.

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effective on or near the date of the law's passage.

Might the Clinton Administration exact a compromise in which the law applies only to assets *bought* after the effective date? That's how the 1993 small-business exclusion worked. Shrewd observers think not: "The people who strongly support this bill want a tax cut on the assets they are holding, not the ones they haven't yet bought," says one former congressional staffer.

Another sticking point may be whether depreciation on real estate will be fully recaptured when the asset is sold. Under current law it is not, and owners can take deductions for depreciation against ordinary income while reaping offsetting capital gains when a building is sold—thus, in effect, converting some regular income into capital gains income. But the real estate lobby is very powerful. So it's a toss-up whether recapture will be in the final law.

**For affluent taxpayers
the effective capital gains
rates would fall from 29.2%
to 20.4%, and fall further for
lower-income taxpayers.**

Will a capital gains cut apply to corporations as well as individuals? Most corporations make little or no use of it, except powerful timber corporations right in Packwood's home territory. Odds that corporations will get the benefit: good.

Archer's bill also addresses inflation indexing of purchase prices, which he has strongly supported for nearly 20 years. This would apply to both individuals and corporations, for inflation beginning on Jan. 1, 1995. But it is unbelievably complex: Consider the calculations required of a shareholder who sold AT&T after 30 years of reinvesting dividends. So it's quite possible that when push comes to shove, indexing could go.

Will homeowners now be allowed to deduct a capital loss on the sale of a home—something that current law does not permit? Almost certainly, yes.

—L.S. ■

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Lufthansa could have called on any bank to help them further privatize in October, 1994. But then, Lufthansa doesn't like turbulence. So they called their preferred "Tower" to arrange and lead the deal: Dresdner Bank.

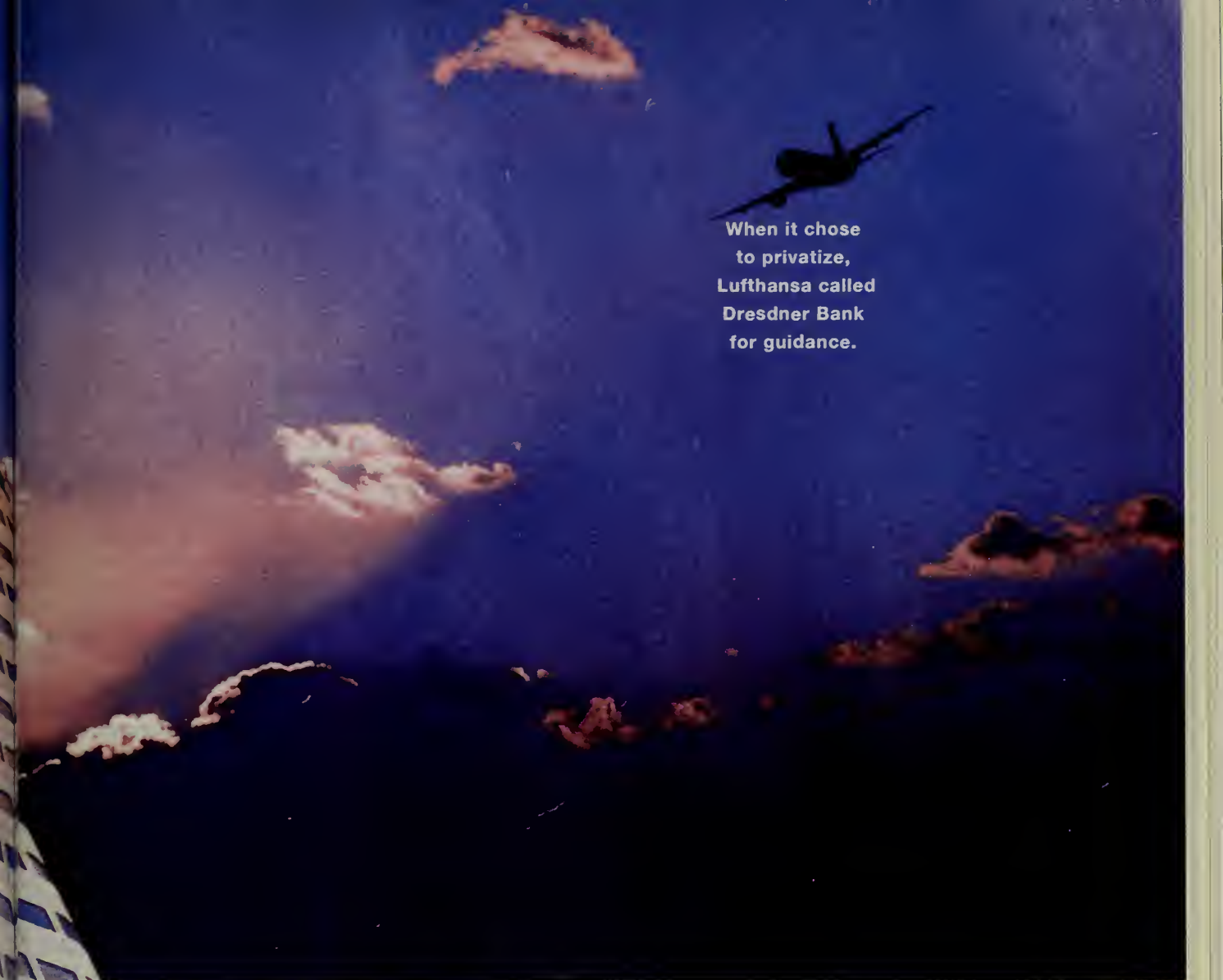
Needless to say, they arrived on time. The landing was exceptionally smooth. Employing a dynamic network that stretches

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Will a tough little Japanese blonde become the new obsession of American girls?

Watch out, Barbie

By Gale Eisenstadt and Kerry A. Dolan



Caroline Parsons/Ami Pictures

FEMINISM ISN'T BIG in Japan. But here is Makoto Yamashina, president of \$1.8 billion (revenues) Bandai Co., Japan's largest toy company, lavishing praise on a tough-spirited, leggy blonde named Sailor Moon.

Sailor Moon isn't a household name the way Barbie is. But Bandai hopes she might eventually become that. She's the heroine of the popular Japanese TV cartoon series *Pretty Soldier Sailor Moon*, and she's already pure gold for Yamashina's Bandai. In the past two years the company has sold around \$400 million (at whole-

TOP: Bandai's Sailor Moon

ABOVE: Bandai's Makoto Yamashina

"These days girls want to be equal or even stronger than boys."

sale) worth of Sailor Moon character goods in Japan. Mattel's Barbie line grossed a record \$1.1 billion (wholesale) worldwide last year, but then Sailor Moon hasn't yet debuted in the huge U.S. market. The battle will be truly joined this year, when Bandai introduces Sailor Moon to the U.S.

Mattel officials are watching closely. Superhero shows for girls haven't

done well in the U.S. But the folks at Mattel realize that may change. "Sailor Moon is a powerful figure but also feminine," says Scott Ray, a vice president at Mattel's Hong Kong office. "I think she'd do great in the U.S."

Yamashina, 49, has a brilliant eye for identifying Japanese comic book and cartoon characters that can move toys. In 1986 he began making toys based on the characters from *Dragon Ball*, a widely watched TV cartoon series that stars a kid who uses his superhuman powers to battle evil monsters. It is also serialized in a comic book that sells some 6 million copies weekly. Last year alone Bandai sold some \$140 million worth of *Dragon Ball*-licensed toys, videogames and other character goods in Japan, and more elsewhere in Asia. Says Olga Wu, a marketing manager at Mattel in Taiwan: "Every kid here knows the story of *Dragon Ball*."

Yamashina's biggest success abroad, and Bandai's first U.S. triumph, is its *Mighty Morphin Power Rangers* line of action figures. The *Mighty Morphin Power Rangers* TV program is a campy good-versus-evil live-action show that is based on a long-running Japanese TV series produced by Toei Co. Saban Entertainment of Burbank, Calif. remade the show for the U.S. market and, with Toei, earns royalties from the characters. The *Power Rangers* show first aired in August 1993 and is now shown on Fox Children's Network six days a week.

In the last two years the show has generated a buying frenzy for Bandai's Power Ranger action figures not seen since the Ninja Turtle craze of the late 1980s. Bandai estimates that

in 1994 some \$250 million (at wholesale) worth of Power Rangers were sold in the U.S., and millions more in over 20 other countries. Jeffrey Steiger, a merchandising manager at the FAO Schwarz toy store in Boston, reports the Power Ranger boom shows no signs of letting up. Bandai executives say they hope to keep Power Rangers on toy shelves in the U.S. for at least five years by coming out with new figures to go with developments in the show's story line.

By the end of the decade Yamashina expects two-thirds of his company's toy revenues to come from overseas markets, versus around 40% now. He has to look abroad for growth. The number of children born each year in Japan has declined by nearly 25% since 1980, and the rapid expansion of Toys "R" Us in Japan is bringing new competition from U.S. companies such as Hasbro and Mattel.

Power Rangers is basically a boys' show. That's where Sailor Moon comes in. Yamashina's instincts tell him Sailor Moon will appeal to little girls all over the world. He explains: "These days girls want to be equal or even stronger than boys."

Sailor Moon is already hot in Spain and France as well as in Hong Kong, where the cartoon has been on the air since this summer. Like many Japanese cartoon characters, Sailor Moon has Caucasian features.

Andy Heyward, president of DIC Entertainment, a subsidiary of Capital

Cities/ABC, thinks the U.S. little-girl market is ripe for a self-assertive character/doll. DIC executives are working

with Toei Co. to create a version of the

Sailor Moon series for U.S. TV.

The show will most likely air this fall and, if all goes well à la the *Power Rangers* show, create enormous demand for

A Power Ranger
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Bandai Co.

Bandai's Sailor Moon toys.

Yoshinori Watanabe, senior vice president at Toei, reports that with the success of Power Rangers there's a resurgent interest in Japanese cartoons in the U.S. Gen Fukunaga, president of Fort Worth, Tex.-based Funimation Productions, is reworking the *Dragon Ball* show for the U.S. market. Fukunaga says it is possible to acquire the rebroadcast rights to top-quality animation from Japan at a fraction of its production costs: "We have a \$500,000 product for \$50,000." He will spend another \$50,000 dubbing his *Dragon Ball* footage into English, adding new music and reediting certain scenes. Yamashina's Bandai America is the mas-

**"The point is to
develop a character
well and maintain
it for a long time,"
says Yamashina.**

ter toy licensee for the U.S. market.

Yamashina carefully picks the characters he licenses. For example, he decided not to get involved with *VR Troopers*, a popular live-action show now in syndication in the U.S., in part because he felt it was too similar to Power Rangers. "The point is not to have a lot of different products," says Yamashina, "but to develop a character well and maintain it for a long time." Instead, Hasbro's Kenner division recently licensed the *VR Troopers* characters for the toy market.

Daiwa Institute of Research predicts that this year Bandai will earn \$70 million, on \$2.1 billion in sales, up 19% from last year. The company's value on the Tokyo stock market now exceeds \$1.8 billion. Yamashina and his father, who started the company in 1950, own 6% of Bandai's stock, worth nearly \$100 million.

In mid-December, Bandai announced it was hooking up with Apple Computer to develop a multimedia device. It's too early to say whether it'll be a hit. But Yamashina makes clear the extent of his ambitions for Bandai when he says: "Walt Disney is our real rival."

A positive a+++itude

It does seem as if India, the nation, has caught up with Essar, the corporation. Our belief in a positive attitude is today the preserve of an entire country. With good reason, too.

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At Essar, a \$2 billion-asset company with quality professional management, we see ourselves as major contributors to, and beneficiaries of, this ideal scenario. We've already achieved business leadership in steel, shipping, oil & gas, power, finance. And a position among the world's largest groups. As we explore further, our clients and affiliates are discovering that in India, we test positive.

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ESSAR
INDIA

In postelection comments liberals show they despise the public while rhapsodizing about "the people."

Food stamps for the soul

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

POSTMORTEMS on this year's election results have spawned many theories—most of which seem to include the notion that there is something wrong with the public. How could they possibly have voted out those Democrats who support the kinds of things that the media anointed know to be right?

Howard Kurtz of the *Washington Post* blamed it on "the electorate's surly mood." The public cannot have reasons. They just have emotions.

In a similar vein, a feature story about the death penalty in the *New York Times* is titled "The Rage to Kill Those Who Kill." In other words, there can be no reason to execute murderers. There can only be emotions—and a "faith in executions."

President Jimmy Carter's remark about a national "malaise" was perhaps the most famous trashing of the public in recent times. He also said that there is "a longing for meaning" in the country—a foretaste of the "politics of meaning" later associated with Hillary Clinton.

Liberal-left disdain for the public has long coexisted with a mystical invocation of "the people." How can you tell the people from the public without a scorecard? Or even with one?

Elusive as the distinction may seem,

few (if any) media pundits have said that "the people" repudiated the kinds of policies so beloved of media pundits. It was the mindless "public" that did that.

All this is not a peculiarity of the vocabulary of the 1990s. The same kinds of notions can be found in the writings of the left in the 1790s—and during the two centuries in between.

William Godwin's *Enquiry Concerning Political Justice* was a sensation in the 1790s, a treatise elaborating 18th-century radical ideas originating in Rousseau, Voltaire, Condorcet and others. To Godwin, "the peasant slides through life, with something of the contemptible insensibility of an oyster." They and the working class are "only a better sort of brutes."

The same notion would reappear much later in the 20th-century radical poet Edwin Markham, for whom "the man with the hoe" was "a brother to the ox."

Fabian socialist pioneer George Bernard Shaw referred to the working class as "detestable people" who "have no right to live."

These were not just individual idiosyncrasies. Those who despise the public and yet rhapsodize about "the people" are not being inconsistent. The anointed can transform one into the other.

Today that is called "raising the consciousness" of others. Conservatives who are co-opted into supporting liberal notions are said to "grow." Conservative Supreme Court justices who go along with liberal rulings are said to have "grown" and are virtually guaranteed glowing puff pieces in the *New York Times*, attributing to them all sorts of unlikely virtues.

More is involved here than foibles or hypocrisy. At the heart of the vision of the political left is the notion that some anointed—themselves—should

be making collective decisions for others, rather than have those others make their own individual decisions.

That notion underlies everything from Stalin's collective farms to Hillary Clinton's health care plan. Those who yearn for an "energy policy" or an "industrial policy" are echoing the same theme. So do those environmental extremists who want the government to "save" this and "protect" that—meaning save them from the public and protect them from the public.

Eugenics, socialism, Keynesian economics and population control schemes all turn on imposing the superior wisdom and virtue of the anointed to control and direct the otherwise dangerous irrationality of ordinary people.

Often the anointed take it as axiomatic that they have greater knowledge than others and therefore can make better decisions. But this assumption is wrong and the conclusion a non sequitur.

While the average member of the intelligentsia may indeed have more formal schooling or more acquaintance with the fashionable notions of the times than the average member of the general public, that is not the relevant criterion.

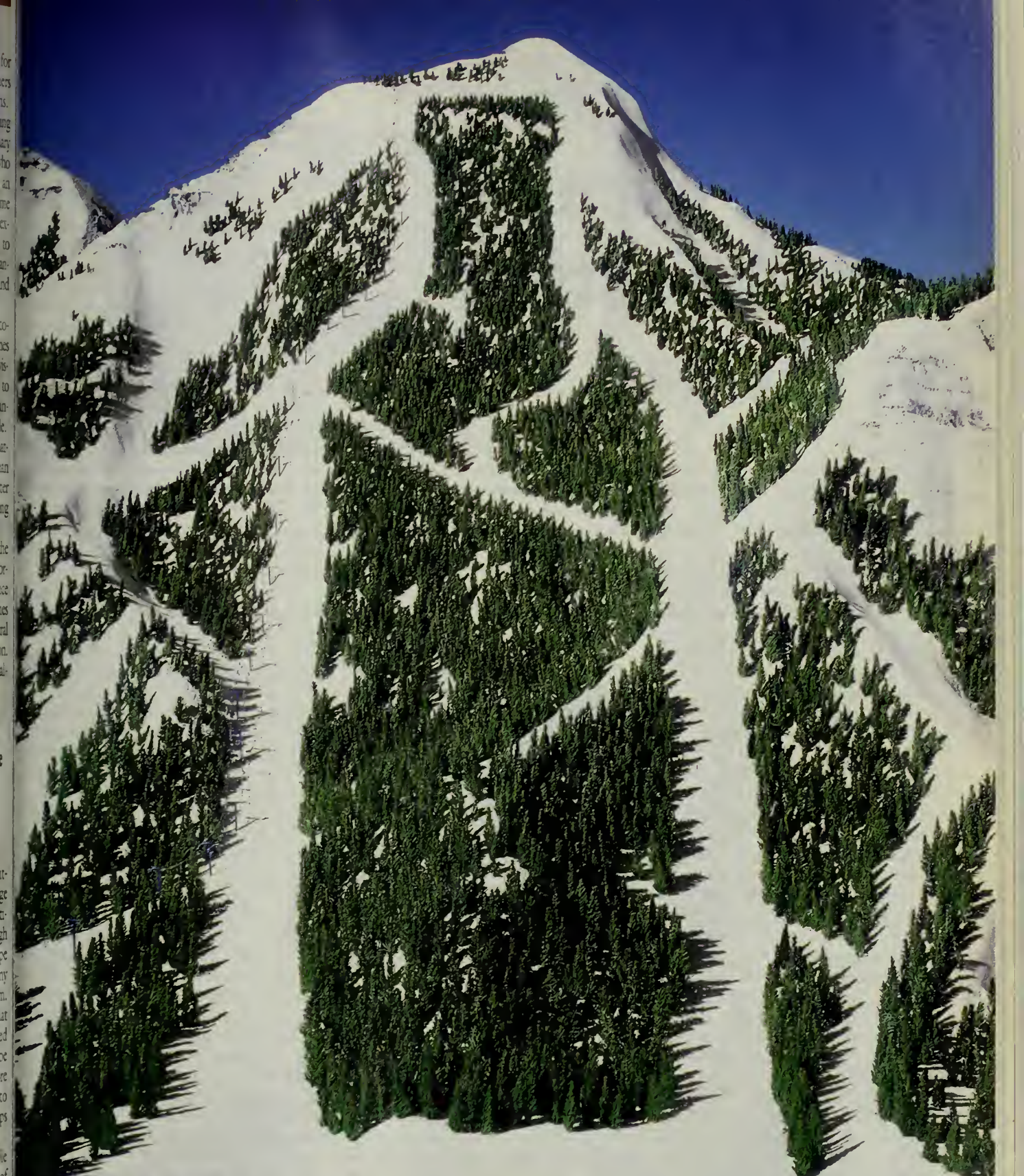
Each individual knows his own val-

Stalin's collective farms, Hillary Clinton's health care plan. The common theme: The anointed know best.

ues and tradeoffs better than any outsider. Moreover, the knowledge brought to bear through the competition of the marketplace, or through the distilled experiences which shape traditions, vastly exceeds what any given individual can know on his own.

There is also the assumption that people who live lives that the anointed would not find interesting must be bored and dissatisfied—and therefore must have meaning dispensed to them from on high, like food stamps for the soul.

To say that there are other people with other values and other sources of meaning in their lives would be to deny the values, assumptions and sources of meaning in the lives of the anointed. It is far easier to attribute irrationality to the public. ■



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THOSE WHO APPRECIATE QUALITY ENJOY IT RESPONSIBLY.

If you're stuck with a boring, nerdy image, do you try to make it over? Thom McAn is trying a different approach. It's making fun of itself.

Please excuse our shoe styles of the past

DURING ITS HEYDAY in the 1930s through the 1960s, Thom McAn sold good but inexpensive shoes and was the bestselling shoe brand in the U.S.

That's the problem. Among the words to describe Thom McAn shoes that came up in recent focus groups were: boring, ugly and nerdy. Thom McAn, founded in 1922 and named for a Scottish golfer, stood for what people regarded as Scottish traits of sensible value, no frills. The focus groups found that people still liked the brand, but it wasn't for them. A little like thinking about Aunt Millie's tuna surprise: a pleasant memory, perhaps, but you wouldn't want one for dinner tonight.

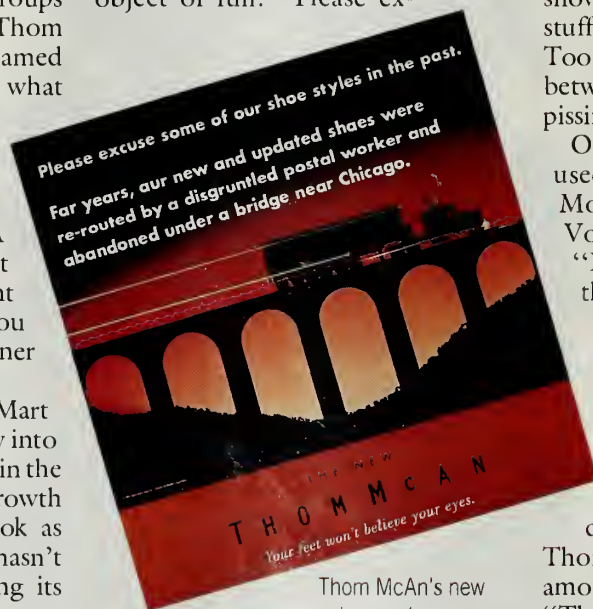
Huge discounters like Wal-Mart and Kmart began cutting deeply into Thom McAn's market for shoes in the \$20 to \$30 range. The steady growth of brands like Nike and Reebok as everyday footwear hurt, too. It hasn't mattered that McAn was selling its own version of hip athletic footwear. The very name denotes something stodgy, not trendy.

In 1981 Thom McAn had sales of around \$440 million from 1,200 outlets nationwide. Now a division of \$7 billion specialty retailer Melville Corp., McAn has closed some two-thirds of its stores. Its sales are down to around \$275 million from some 400 outlets.

So Thom McAn is undergoing a major image makeover. First,

there's a spiffy new block type logo (no more antiquated script). Now salespeople are instructed to work in khakis and casual open shirts instead of suits.

But Thom McAn isn't tossing out the old image. It's turning it into an object of fun. "Please ex-



Thom McAn's new subway ads
"You can't just say, 'We've changed.'"

cuse some of our shoe styles in the past," says the first line of a new series of New York City subway ads. Over a photograph of a speeding truck, the copy reads: "For years, our new and updated shoes were rerouted by a disgruntled postal

worker and abandoned under a bridge near Chicago."

Another ad reads: "Through a fluke computer error, the office supply store sent us the wrong desk calendars and we still thought it was 1976."

What's the point of making fun of yourself? "There's nothing new in just saying, 'Come see us, we have changed,'" says Nick Cohen, who heads the small upstart ad agency Mad Dogs & Englishmen, which handles the Thom McAn account. "A lot of people do that, and there's no reason to believe them. So you have to use a bit of self-deprecation to get people to take you seriously."

The new ads aren't half as daring as some of the early ideas Thom McAn rejected. One approach was an overt apology, followed with a promise of free chocolate in the stores to make amends. "The problem with that is, what kind of person is going to come in?" says Cohen.

Then there was the rejected ad showing an old Thom McAn shoe stuffed with six sticks of dynamite. Too negative. "There's a difference between being self-deprecating and pissing on yourself," says Cohen.

Of course, other advertisers have used self-mockery to sell in the past. Most famous, perhaps, is the old Volkswagen ad with the headline "Lemon" over a shot of the Beetle. Those ads were crafted in the 1960s by Doyle Dane Bernbach—then Thom McAn's agency as well—in a period many now regard as advertising's finest age.

Volkswagen's ads managed to turn the car's perceived defects into its virtues. The Thom McAn ads pretty much amount to an embarrassed "Oops." "There was some discomfort within the company," admits Thom McAn President Larry McVey. "You tend to take it kind of personal."

In two months television viewers in New York and Boston can look forward to a commercial showing the back of a man fishing on a riverbank. The camera zooms in on a talking frog. "Change the shoes, Thom," croaks the frog.

Will it sell? What's to lose?

—J.L. ■

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Programming simulators was a daunting task before Paradigm Simulation started selling shortcuts.

Virtual reality made easy

By R. Lee Sullivan

THERE USED TO BE a saying among computer programmers: Virtual reality can be fast, pretty or cheap, but you can choose only two of the three.

Virtual reality is the science of videogames adapted to serious purposes. It makes possible the training of an equipment operator or surgeon or the like using the paraphernalia of interactive toys: screen, headsets, hand controls and so on. It also makes it possible to design costly machinery without building prototypes.

The two-of-three rule said that if a simulation was going to be both fast and crisp on the screen, it had to be expensive. And it was. Realistic simulation programs for training pilots ran upward of \$2 million each. Less demanding users could get by on the cheap, but at the cost of cartoon scenery or sluggish response.

The world changed in 1990, when Silicon Graphics introduced an \$80,000 workstation that reproduced detailed backgrounds quickly enough for realistic motion. That wiped out the two-of-three adage and smelled of opportunity to three Dallas programmers.

Ronald Toupal, Michael Engeldinger and Wesley Hoffman put their heads together. Working for a company called Merit Technologies, they had experience designing military radar simulators. They knew how tough the simulators were to program. To

```
simulate an aircraft's landing lights, a
C programmer would begin:
cone_angle=(1.0-(float)j)/-
(float)numrings)*(width/2.0);
if (elev+width/2.0>89.0)
... height=zpos*200.0;
... and so on for 3,000 more lines.
```

Why did things have to be so complicated? The thousands of lines of instructions that make a fighter seem to fly through the air are essentially the same as those that make a tank seem to rumble across the desert. Why not sell a package that provides a canned version of that basic code, eliminating the grunt work and allowing the designer to focus on customizing the rumble of the tank and the movement of the aircraft?

The three, whose age range is 29 to 35, started Paradigm Simulation, Inc. and began writing the basic program from their homes. Their first sale



Canned code

The basic instructions that make Cobra helicopter gunships appear to fly (left) are essentially the same as those for F-18 fighters.



came in late 1990, when Krauss-Maffei GmbH, a German heavy-equipment maker, used the program to construct a simulator that trained tank drivers. Today Boeing, Lockheed, Ford, Volvo, the U.S. armed forces and 300 other clients use Paradigm to build simulators that study prototypes or train personnel. Revenues reached \$4 million last year.

The simulations built on Paradigm programs look spectacular: ships on seas with waves that pitch and roll, helicopter gunships strafing harbor

warehouses in the jungle, space shuttles docking with orbiting stations above Earth. The graphics use what programmers call "texture mapping," filling in three-dimensional objects with shading, shadows and detail. When coupled with motion platforms that mimic cockpits, the graphics can make you seasick.

It takes millions of calculations each second to redraw a texture-mapped object to reflect perspective changes as the viewer moves through the virtual world. But, despite the

Real time
It takes
millions of
calculations
per second
to redraw rolling
waves (right)
or detailed
structures
to keep
pace with
rapidly changing
perspectives.



complexity of what is being calculated, calling up the calculations no longer demands complex programming. In lieu of the 3,000 lines of C, Paradigm's customers can simulate landing lights by doing no more than moving a cursor over an icon labeled "Light Lobes" and clicking a mouse button. A window pops up with options to adjust the size and intensity of the light beam.

"What took months now takes days," raves programmer David Edgemon of Nichols Research, a Nasdaq-traded Huntsville, Ala. company that builds launchers for the Army's Stinger missile. He says that using Paradigm's Vega software package makes testing missile designs almost fun rather than drudge work.

To create simulations using Paradigm software, programmers supply data describing landscape and write

programs defining special vehicle parameters—such as the handling characteristics of an F-14 fighter. Vega then joins vehicle with landscape, moving the operator through the virtual world. Pointing and clicking pulls down windows that allow the user to adjust the environment by time of day or weather, add special effects like contrails or explosions, or include

Whether you want to simulate a tank lumbering across the desert or a jet plane streaking through the sky, you can now use a single program for creating virtual reality.

computer-controlled objects like enemy aircraft or highway traffic. In the past all these things would have been created from scratch.

Michael Pomykacz, a programmer with the Federal Aviation Administration, uses Vega to move around computer models of new flight control console designs. "The time I saved on one project paid for the product already," he says.

Vega costs from \$3,500 to \$40,000, depending on the complexity of the job. Ships need complicated software simulating wave motion, but an architect moving around in buildings could get by with the basic version for less than \$10,000. A Silicon Graphics Onyx Reality Engine workstation running Vega typically needs around 256 megabytes of fast memory and 3 gigabytes of storage space on a hard disk, and might cost \$300,000.

Though 40% of Paradigm's revenues come from defense work, new simulation applications are popping up in diverse disciplines. Renault uses Vega to develop simulators to train truck drivers; an Italian company uses Vega to model Renaissance cities for an educational project; Nintendo has hired Paradigm to adapt Vega to videogame development.

If Paradigm has its way, almost everybody will be able to create virtual reality programming. Future versions will require no computer experience whatsoever.

Paradigm marketing head Michael Smoot thinks that this will soon allow people in business, the arts and education to use graphics in new and creative ways. Smoot gets carried away a bit: "Three-dimensional, [full-motion] graphics will be as influential as the printing press."

Cellular oversell

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

THE GREAT cellular bonanza is under way. The federal government's auction of new cellular frequencies, the first of which opened on Dec. 5 and will go on for perhaps 90 days, will presumably yield a bonanza for the Treasury, \$10 billion or more. It is also presumed that telephone customers will reap a bonanza. Existing frequencies are so crowded in New York and Los Angeles that license holders are scalping basic service at \$40 a month. When the new licenses come in, rates will crash.

I can hardly wait. But if history is any guide, I'll have to.

In principle, there is room in the ether for a lot more telephoning. Existing cellular licensees (two in each city) share 40 megahertz of broadcast spectrum. The new licenses will cover a combined 120 megahertz.

Digital electronics meanwhile is expanding, by a factor of at least six, the number of calls that can be packed into each megahertz. The existing transmitters will be retrofitted with digital capability over the next decade. Analog handsets will slowly be replaced by digital ones. The new licensees will use digital technology from the start, though in the interest of seamless national coverage, many of the handsets will work on both old and new networks.

Why am I hesitant to join in proclaiming an immediate payoff from all this? Because it takes so much time and money to get a new electronic technology out into the marketplace.

The old-style cellular telephone required a decade, after service began in the fall of 1983, to become a consumer product. This, after the industry had spent \$14 billion on network construction, or about \$870 per subscriber. Indeed, it was not until the end of the third year of operations that the total revenue from cellular service at last began to exceed the amount of money that had been spent to make the service possible.

The new cellular is part of a general opening up of the airways that goes by the meaningless jargon "personal communications services." One part of PCS is a set of 50-kilohertz channels auctioned off this fall for improved pager services. Another sets aside 20 megahertz for unlicensed wireless local-area networks and cordless telephones. The greatest commercial possibilities, however, lie in the radio spectrum between 1,850 megahertz and 1,990 megahertz, set aside for new cellular telephone licensees, up

other \$5 billion is spent each year for the next decade on the hardware. The \$60 billion total would be almost four times the cost of today's cellular system. After a decade, there are only about 20 million old-style cellular customers; a decade hence, will there be two or three times that many customers for cellular II?

For answers we have only guesswork. The latest forecast by the Personal Communications Industry Association shows subscribers for the new licensees reaching 8.6 million by 1998, or about the same number of customers that old cellular had after eight years in business.

It's already clear, however, that the new systems won't be under way until the first half of 1996. When it does arrive, the hardware won't be cheap. The handsets will start out (wholesale) at \$300. That compares with a typical retail price of less than \$100 for today's cellular phones.

In addition, it's apparent that many of the new networks are going to be owned, operated and priced by today's cellular companies. One reason is the huge capital cost of the transmitters. Another is that marketing

**Wireless communication will be a medium for the masses.
The question is when and at what cost.**

to six in each city.

The new cellular space is located right at the intersection of computers and communications. This is the territory in which the next generation of communicating devices, the smart phones and personal digital assistants, will operate. Enormous sums will be spent to develop the market by such companies as AirTouch Communications, American Personal Communications, AT&T Wireless, Bell Atlantic, BellSouth and almost every other company that has even considered the future of telecommunications.

Eventually, I'm convinced, hyperbole in the news columns and millions of dollars of advertising will turn wireless communication into a medium for the masses. The question is when and at what cost.

Let's assume, as seems likely, that \$10 billion is spent to acquire the licenses for the new cellular and an-

cellular requires a nationally recognized brand name.

Adoption will be delayed by the uncertainties over electronic standards. Some cellular operators are behind an approach known as time-division multiplexing. Others advocate the incompatible code-division multiplexing. The Europeans, with an eye on world markets, are taking yet another approach. A version of these European technical standards may find acceptance in the U.S. as well.

Over the next few decades, as the Federal Communications Commission liberates more frequencies to wireless traffic, there will be spectrum enough for all the proposed networks. Indeed, close to 100 gigahertz (100,000 megahertz) of useful microwave spectrum remain underutilized. But will there be customers enough to justify the huge investments?

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IF YOU'RE

TO STICK

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JFN

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SPEND

ON R&D

NOT PLANNING

AROUND.

These technologies are leading the way for everything from video-on-demand and home shopping to interactive education. Our commitment to R&D remains unchanged at Digital. What has changed is our way of going about it. It used to be that the hardest part of R&D here wasn't coming up with the ideas. It was pushing them through the system.

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digital™

Wins and losses

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

YOU KNOW WHAT the old-timers say about being too picky about a stock: The downside is, you might miss the boat. The upside is, you might miss the *Titanic*.

I missed a few boats over the past year, but I also missed some sinkings. On the whole, the performance of stocks recommended in this column over the past year compares favorably with the market: They were up 6.7% during a period when the average Nasdaq stock was off 3.3% and the S&P 500 lost 2.8%. Here is my annual report to readers.

The year had 19 buy recommendations in 13 columns, beginning with the Dec. 6, 1993 issue. Electronics for Imaging, a manufacturer of high-speed digital printing systems, recommended Dec. 6, was the best performer. Landmark Graphics, a geophysical software company that went down on disappointing earnings, was the worst. Both stocks are keepers.

One near-miss was particularly frustrating: Wonderware, which makes software to automate engineering and manufacturing processes. This stock was offered over-the-counter at I5 when I wrote a column recommending it in early August. Hoping for a trading pullback, I suggested it was a buy at I4. The stock's lowest touchdown in August was 14¼. So if you followed my advice exactly, you never bought any. Wonderware has since gained 83%.

I know from the mail that a good many readers did in fact buy Wonder-

ware, and since they are in it, we should ask now whether such an excellent runup can be expected to continue into 1995. Fundamentally, the company and its technology are solid, and the growth of the business should continue apace. The only real alarm here is that the stock's gain surmounts our particular list—and is probably very high on everyone else's. When everybody loves a stock, there's reason to be careful. Nonetheless, I think you should hang on.

Besides Landmark Graphics, this year's major disaster was Level One, a semiconductor company I recommended in September at 20. The stock climbed past 20 before the magazine appeared. In October it hit 32. Then it blew apart, apparently as a result of downgraded earnings estimates. On one day, Oct. 13, it fell from 28 to 18¼. A reader who followed my buying limit literally would have picked up the stock on the way down at 20, and is now showing a 35% loss.

I learned a lesson from this unfortunate stock: Be more specific about

how long a recommendation should stand. Here's my new rule: A buy recommendation with a limit price is good for only two weeks after the folio date, which is the date printed at the bottom of a magazine page. That cutoff date gives readers not quite a month after receiving the magazine to do a trade. If the stock dips to (or crashes through) my limit price after that cutoff, don't buy it.

For the purpose of scoring myself fairly in the annual retrospective, I will treat a buy recommendation with a limit price as if it were a

Don't put in a good-till-canceled order. It makes you a sitting duck.

standing buy order good until the cutoff date. But I hope that if you are trading on this column you can be more discriminating in your use of limit orders. Never put in a good-till-canceled order. It makes you a sitting duck for traders who want to unload the stock when it is crashing, often for good reason.

Instead, make your limit orders good for the day only, and enter them after trading has opened in your target stock. That way, if the company announces after close of business on Tuesday that it just lost its only patent, you won't be innocently picking the stock up at an inflated price at 9:30 on Wednesday morning.

At some risk of missing another Wonderware, I will continue to put buying limits with recommendations when I feel they are appropriate. There is no point chasing a rising technology stock once it has rocketed past a reasonable entry price.

In the table I have assumed a purchase price equal to my buying limit, if one was mentioned and the stock hit it. If no limit price was specified, I used the last trade on the day two weeks before the folio date, which is when the magazine reaches most readers. I have added an estimated 1% commission to the buying price. The unmanaged indexes with which I am comparing the results do not, of course, get docked for such transaction costs.

Scorecard

Stock	Date ¹	Gain/loss ²
Electronics for Imaging	12/6/93	40.5%
Cognex Corp	12/6/93	37.1
Corel Corp	12/6/93	32.6
Veritas Software	11/7/94	29.3
Amgen	5/23/94	28.9
Apertus Technologies	9/12/94	27.1
Applied Innovation	9/12/94	25.3
Percepton	10/10/94	23.8
Chiron Corp	5/23/94	15.8
Biogen	5/23/94	5.4
Gilead Sciences	5/23/94	2.5
Genentech	5/23/94	-1.8
Genzyme Corp	5/23/94	-6.7
Agouron Pharmaceuticals	5/23/94	-8.1
Wall Data	7/18/94	-10.5
VLSI Technology	4/25/94	-18.4
Three-Five Systems	9/12/94	-21.7
Level One Communications	9/12/94	-34.8
Landmark Graphics	6/20/94	-39.7
Portfolio gain/loss		6.7%
S&P 500 ³		-2.8
Nasdaq ³		-3.3

¹Forbes issue. ²After 1% commission.

³Twelve months through Dec. 5, 1994.

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THE WAY

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If you like to ride to hounds, try Ireland, where the cost is reasonable and the horses so big they fly over the walls and ditches.

Tallyho!

By Ray Brady

AS A MARINE lieutenant in Vietnam, Kenneth Carlisle helicoptered behind enemy lines to capture Vietcong soldiers for interrogation.

That didn't scare him as much as his first try at foxhunting in Ireland did. "Here I was," he recalls, "on this huge horse I had never ridden before. I had no idea what the terrain was like, and I said, 'My God, what have I gotten myself into?'"

Answer: He'd gotten himself hooked. Now the California businessman periodically lands at Shannon Airport, boots in hand. Why Ireland? This is a country that takes its fox hunts seriously. On a Sunday hunt half the local village may turn out, following the hunt on foot or by car, cheering on hounds and riders.

To get the feel, come to one of the little crossroads that dot the Irish countryside. Only a pub marks this site. One moment all is serene. Then a horse trailer pulls up, then another. Hounds scramble out of hunt trucks. Riders appear in coats of black or red (the latter called "pink," after a tailor named Pink who, legend has it, first made them) to tighten girths. A few come running out of the pub, fortified for the ride ahead.

The hounds dive into a patch of gorse. Suddenly, a blur of reddish fur comes flying out. Tallyho! The huntsman's horn sounds a tinny toot-toot-toot, and the chase is on.

Gripping your horse, you come to the first obstacle: a

huge stone wall. You think: No horse can clear that. A small boy, astride a Connemara pony and wielding a stick for a crop, sails over it. You clear it, too, your hefty, 17-hand hunter hardily breaking stride. Now you've got confidence. Your blood is up. The horse is galloping hard, the breeze in your face.

A ditch. The horse collects itself, executes a high leap into the air, and you're over that, too. The fear is gone now. Abruptly the hounds lose the scent. Time for you and your horse to catch your breath. Meanwhile, the



hounds run in tight circles, sniffing, uttering anxious little yips, desperate to pick up the scent. A quiver of excitement runs through horses and riders. Hounds have struck a line.

You don't have to spur your horse. He's off and running. Exults Irish hunting addict Ken Carlisle: "If you've got any business or financial worries, they're gone—you're caught up in the hunt."

About being scared: Few people get seriously hurt. Ireland's horses have been bred for centuries to take those ditches and walls. They develop big bones, stamina and intelligence. About all the rider has to do is stay on. "Give an Irish horse his head," says Jerry Miller, president of AAA Bluegrass/Kentucky, a travel agency. "They know their job, all you have to do is trust them."

At one stone wall, a rider tumbles off. Nobody worries. The rain that keeps Ireland green also keeps the ground soft. Andrea Martin, director of sales and marketing for New Jersey's Aerosource Inc., laughingly describes her Irish tumble: "There was a drop, and at the bottom you had to jump over a huge, fallen tree lying at a tricky angle. I fell off going over that tree, and going, I fell off again. But I never got hurt."

Animal rights readers can relax: The fox often gets away. On the long ride back, you remember with pleasure where it was you left your car. When you get to the pub somebody's al-



Riders and hounds prepare for the chase in County Limerick
Hunting in Ireland makes you feel part of history.



Ireland's horses have been bred for centuries to take ditches and walls

No one worries about tumbles; the rain that keeps Ireland green also keeps the ground soft.

ready bought the first round, and you're holding a hot Irish whiskey.

In Ireland, of course, bars are as much for talking as for drinking. You're treated to some fine "craic"—Irish for great fun. After one memorable chase with the Galway Blazers, we all trooped into a wonderful place called Moran's of the Weir. For hours the laughter and stories continued as we ate oysters, fresh out of Galway Bay, and washed them down with Guinness.

Hunting in Ireland makes you feel part of history. If you ride with the Duhallow Hunt, near Cork, you're with a group that was chasing foxes before 1745. Go with the Scarteen, and Master of Fox Hounds Chris Ryan may invite you back to Scarteen House, the ancestral home of the Ryans. There, on the walls, you'll see oil portraits of generations of Ryans, all in full hunting kit; this one family has been running this hunt for more than 300 years.

Miller recommends that greenhorns start with the Galway Blazers or the County Limerick Hounds; their terrain most approaches what a rider may be used to in the U.S. By the way, the Blazers got their name back in the mid-19th century when an all-night hunt party ended with the host hotel burning down.

What to wear? I've seen an English lord, in top hat and pink coat, get out of his private helicopter and a few minutes later be chatting away with a farmer in gumboots and battered tweed jacket. The farmer, however, was Irish. As a visitor, you should be properly attired in black coat, canary breeches, white stock, black boots and hard hat. Anyhow, that's part of the fun.

A major appeal of fox hunting in Ireland is that it doesn't cost an arm and a leg. The capping fee, collected to defray the cost of the hunt, usually runs about \$100. Hiring a horse for the day is only \$100.

When to go? Right now, if you like: The season starts in autumn and runs through early spring.

The Irish Tourist Board in New York (212-418-0800) can help with arrangements—names and dates of hunts, whom to contact, etc. There are hotels that specialize in hosting devotees. At the foxhunting center of Adare, in County Limerick, Manager Bryan Murphy of the Dunraven Arms Hotel often will accompany guests hunting with the Scarteen, Blazers, Limerick and other hunts.

In Cork, there's the Arbutus Lodge, winner of a coveted star from Egon Ronay, the European food critic. Its owner, Declan Ryan, often doffs his chef's toque to ride with guests in the Duhallow, United and other hunts outside Cork. "I run the hotel," he once told me, "to pay for the foxhunting."

But be careful. The sport is addictive. English novelist Anthony Trollope wrote that after his first fox hunt, "Nothing has ever been allowed to stand in the way of hunting—neither the writing of books, nor any other pursuit." Trollope went on that first hunt in—where else?—Banagher, Ireland.

Ray Brady is economics reporter for CBS News.

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LINCOLN

What A Luxury Car Should Be

Western art has long been hot, so it was just a matter of time before chaps, spurs and barbed wire caught on, too.

True grit

By Terzah Ewing



J.P. Bryan is a great-great-great-grandnephew of Stephen F. Austin
Small wonder his Houston offices brim with remnants of the Old West.

JAMES PERRY (J.P.) BRYAN, chief executive officer of Nuevo Energy in Houston, is a great-great-great-grandnephew of Stephen F. Austin, the founding father of Texas. So it's no surprise his offices are crammed with old land maps, letters, photos of bronco busters, saddles and saddle bags, hundreds of sets of old spurs, bridles, safes and chaps.

Bryan inherited his Texasmania from his father, J.P. Bryan Sr., who collected rare documents, books and maps relating to Texas history. Bryan Sr. died in 1966. The son had hoped

to inherit the collection but found that his father had sold it to the University of Texas in Austin. For almost 30 years Bryan has worked at building his own collection.

It includes the usual art and firearms but also everyday stuff that cowboys and other settlers of the Old West wore and used. The gear doesn't come cheap anymore: A fine set of old spurs, made by the likes of G.S. Garcia, can cost more than \$20,000. Bryan's total collection, numbering 7,000 pieces, is worth well into seven figures.

Some of his collection decorates a hotel Bryan owns, the Gage, in Marathon, Tex., near Big Bend National Park. But most of the pieces are now scattered throughout his company headquarters, in conference rooms, hallways and private offices. The collection is so big it requires its own curator.

In Bryan's own office are dozens of items, ranging from an express (stagecoach) wagon safe to a horsehair bridle made by prison inmates. In the heyday of the Old West, prisoners made cowboy gear to keep themselves busy. Those bridles now bring up to \$7,500.

Spurs are prized, especially those made by renowned craftsmen like Garcia, who plied his trade out of Elko, Nev. around the turn of the century. They now go for anywhere from \$7,500 to \$20,000. One elaborate set of Garcia's California spurs, presented in 1903 to Harry Brennan, a world champion bronco rider, depicts a California bear on one side and a Texas star on the other. The spurs sold for \$46,000 last January at the Wild West Collectors Show & Auction in Mesa, Ariz.

Other famous spurmakers include August Buermann, of Newark, N.J., and John Robert McChesney, of Broken Arrow, Okla. Working in iron and silver, artisans of the period crafted spurs in three motifs: the decorative California style and the more utilitarian Texas and Northern Plains styles.

Also hot are old chaps—the leather coverings cowboys wore over their pants to protect their legs from thorny brush. Woolly chaps—covered with dyed angora goat hair—bring an average \$2,000 to \$3,000. And fancy, studded chaps average \$5,000.

Collectors with smaller budgets aren't cut out of frontier nostalgia. Retired geologist Dan Sowle, of Stanley, N.M., collects an item that defined the frontier mentality: barbed wire. Between 1868, when the U.S. government first issued patents for wire, and 1900, 750 licensed barbed wire designs appeared.

A collectible length (18 inches) of the rarest design, the Dodge star, which is a single strand of wire punctuated with miniature star-shaped spurs, now fetches \$300 to \$400.

Sowle got into wire in 1972 when



Woolly chaps for the well-dressed cowhand

This pair fetched \$17,000 at a Santa Fe auction.

another collector asked him for a favor. "I was out doing some mapping, and he asked me to keep my eyes open for him. It wasn't long before I was looking for myself," he says.

There are barbed wire associations in several states and about ten shows a year are held, including one called the Super Show, which is hosted in April by the National Museum of Barbed

Wire in McLean, Tex.

Beware: There are plenty of fakes out there. Frontier artifacts are easy to duplicate, and only experts can tell a genuine Garcia spur from a phony. Brian Lebel of Old West Antiques in Cody, Wyo. promises his customers a refund if their purchases turn out to be fake. Make sure any dealer you buy from gives the same guarantee.

An important network for collectors is the National Bit, Spur, & Saddle Collectors Association, which publishes a quarterly newsletter featuring articles, advertisements and information on upcoming shows and auctions. Membership: \$20. Tel: 719-591-7136.

Other resources include Bill Mackin's *Cowboy and Gunfighter Collectibles* (Mountain Press Publishing, \$20) and R.C. House's *The Official Price Guide to Old West Collectibles* (House of Collectibles, \$12.95).

The next big auction, the Wild West Collectors Show & Auction, in Mesa, Ariz., will be held Jan. 14-15. The next barbed wire show will be held in Apple Valley, Calif. Feb. 4-5.

If you have any Old West artifacts that you would like to have verified, experts at Butterfield & Butterfield auctioneers in San Francisco will oblige. Contact Greg Martin at 415-861-7500, ext. 341.



Old spurs can go for \$20,000 and more

Two popular styles: Northern Plains (left) and California.



Dodge star barbed wire, one of the rarest designs

A collectible length (18 inches) now fetches \$300 to \$400.

How did he know

that your parents would probably

need help someday?

That your little girl had always

talked about going to medical school?

And that you had a few dreams

of your own for the future?

It was years ago he helped you

set up that investment plan.

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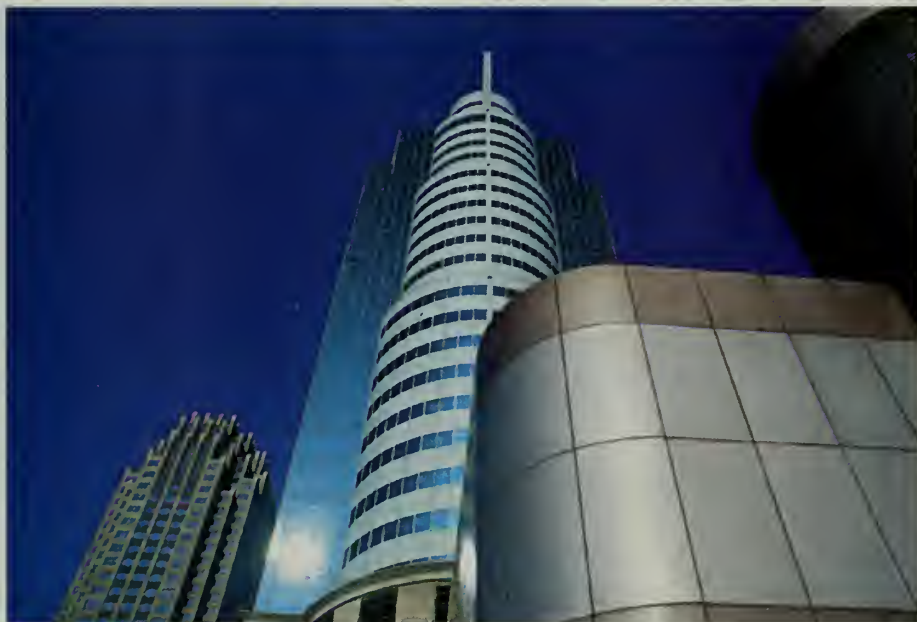
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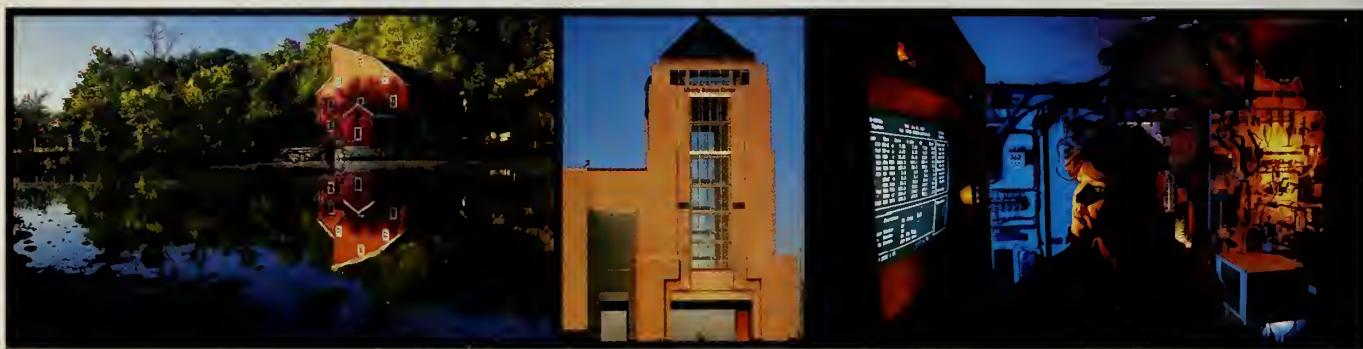
WHAT A DIFFERENCE A STATE MAKES.



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The right business address makes all the difference in the world. It means immediate access to capital, foreign and domestic markets, top-notch R&D talent, a well-trained workforce and business-friendly government support. Successful executives also know it includes an enjoyable lifestyle.

Those "in the know" work and live in New Jersey, one of the original 13 colonies that led the United States to economic independence. New Jersey has been at the forefront of each wave of economic change since colonial days, producing a vibrant agricultural industry from a patchwork of independent farms, forging a strong manufacturing tradition from a collection of mills and factories and networking worldwide communications from the technology highways that crisscross the Garden State.

New Jersey's business location gives it unique access to the global market. It is a natural gateway to America's influential and wealthy Northeast, and beyond that to the country's heartland. It is the stepping-stone to neighboring Canada

and Mexico, exporting more than \$300 million in additional products since the signing of the North American Free Trade Agreement and creating 5,000 new jobs in the process.

With its metropolitan-based harbors on the Hudson and Delaware rivers, New Jersey is the passageway to ports in Europe, South America, Africa and the Pacific Rim. More than 1,300 multinational firms have offices here, while residents speak nearly 120 foreign languages, giving New Jersey businesses an edge in international commerce. In all, more than \$11 billion in exports find their way from New Jersey to international markets.

From the state of New Jersey, companies can take advantage of a well-connected intermodal transportation system, competitively priced utility options, country-campus surroundings, a revitalized academic and vocational program and new incentive packages from New Jersey's Department of Commerce and Economic Development. Taking care of business has come to mean taking a

fresh legislative approach in the state capital of Trenton.

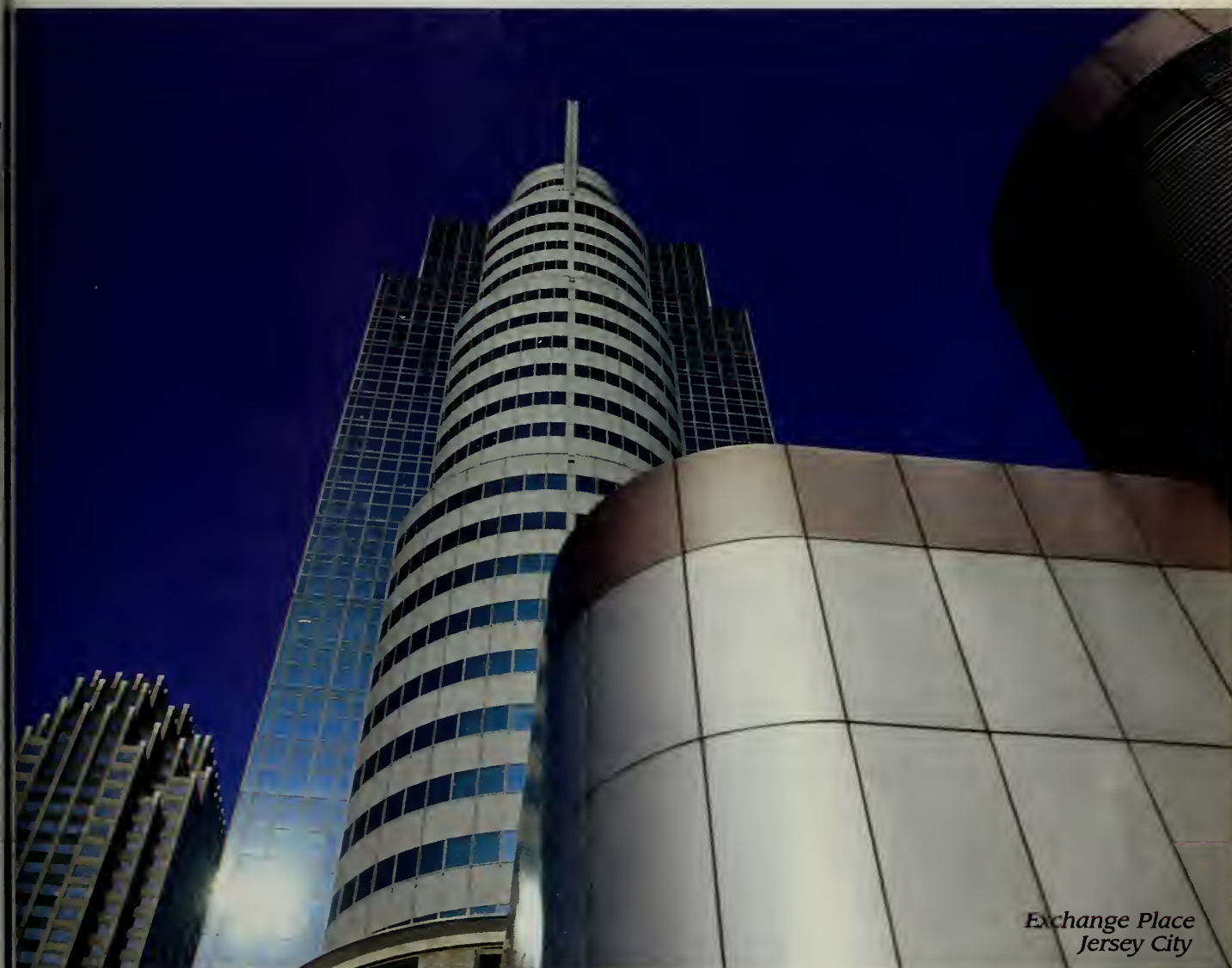
"My goal is to make government smaller and more efficient," says Governor Christine Todd Whitman of her administration's proactive and trendsetting programs that are reenergizing New Jersey's economy.

The Whitman Administration has so far demonstrated its commitment to business by rolling back the corporate tax surcharge, decreasing the state income tax by 15% and, most significantly, streamlining the regulatory approval process in the new Office of Business Ombudsman. Last summer an important milestone was reached when Standard & Poor's raised New Jersey's bond rating to stable. Says Governor Whitman, "Businesses need to know they will be heard."

The Whitman Administration is working hard to strike a legislative balance to create both a healthy public and busi-

(Photos Left to Right) Old Red Mill, Clinton; Liberty Science Center; PSE&G employee

In New Jersey, we offer more than incentives. We offer inspiration.



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Take our location. New Jersey lies within 250 miles of more than 60 million consumers who spend \$800 billion a year on goods and services. Reaching them is no problem. We have a dozen airports, including Newark International, thriving ports, 35,000 miles of highway, and more railroad track per square mile than any other state.

And with our abundance of attractive housing, renowned education system, incomparable cultural events, and 127 miles of beautiful shoreline, it's understandable why more than 1,300 foreign firms and 25 Fortune 500 companies call New Jersey home.

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ness environment. It is actively revitalizing a partnership model involving the public, private and nonprofit sectors in new enterprises whose return on investment benefits both businesses and residents.

As goes New Jersey, so will the rest of the country, predicts Commerce and Economic Development Commissioner Gualberto "Gil" Medina: "New Jersey is a pacesetter. Business confidence here is very high."

All of which is welcome news to businessmen like Donald Trump, who owns three of the more successful casinos in Atlantic City as well as residential real estate in the Garden State. About Governor Whitman's recent moves, Trump observes, "There's economic stability behind a governor who can get the right things done."

Getting the job done is what the new business climate in New Jersey is all about. When it comes time to report year-end results, this business address makes all the difference in the world.

AN ECONOMIC OVERVIEW

The biggest advantage of New Jersey's economy is its diversity — home to local entrepreneurship as well as multinational corporations.

"Our goal is to take this state into the next century," says Cy Thannikary, state director of the Division of Economic Development. "We want to expand New Jersey's growing list of companies that are world leaders."

New Jersey already boasts well-established corporations that specialize in pharmaceuticals and chemicals, biotechnology, communications, tourism, automotive manufacturing, electronics,

New Jersey

WHAT A DIFFERENCE A STATE MAKES.

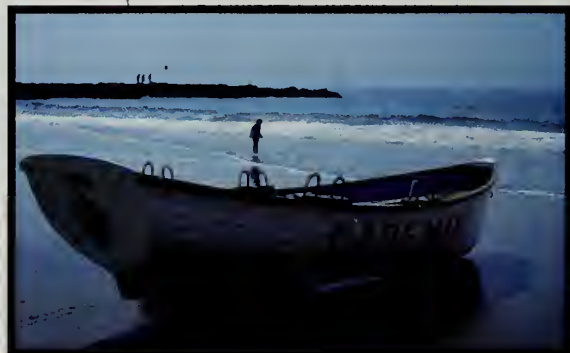


insurance and data-intensive services. Foreign firms with manufacturing facilities in New Jersey total more than 360. Nearly 1,300 companies working from 40 countries have a presence here, employing a workforce of more than 160,000. Twenty-five FORBES 500s companies list New Jersey as their business address.

"I see, on average, two companies a day that want to move to New Jersey," says Thannikary. A relocation can take as little as 12 months, while a capital-improvement

expansion can be done in less than five. Already about 140,000 research scientists and engineers are leading the charge into emerging opportunities in health care, medical equipment, gaming electronics, information highway security, hazardous waste disposal, boat manufacturing, food processing, fishing, recycling and pre-fab housing construction.

From New Jersey the next step is overseas. "The plan for international trade growth is simple and direct," says Carlos Kearns, director of the Division of



(Above) Lifeboat on beach at Cape May (Below) Atlantic City, the boardwalk & hotels

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International Trade: "To find strong and consistent markets."

To that end, his office has already identified 12. Canada is New Jersey's No. 1 trading partner, followed by Mexico and the United Kingdom. In Europe, trading markets include Germany, France and the Netherlands, and New Jersey's Pacific Rim trading partners are Japan, Korea and Taiwan.

"New Jersey has a proud tradition of manufacturing products and providing services that are recognized throughout the world," Kearns says. To increase worldwide awareness for New Jersey exports, the division is cultivating alliances with Chile, Argentina and Brazil.

The State Commerce Department is helped in its economic revitalization efforts by aggressive moves on the part of the utilities that do business in New Jersey.

Public Service Electric & Gas (PSE&G), the state's largest energy utility, promotes Tradelink NJ, which is targeted to small and medium-size businesses that want to export their goods abroad. Its services include market analysis reports for use by industries and countries.

To date, Tradelink NJ has generated 4,000 inquiries, netting a potential 250 U.S. companies that want to export from New Jersey to overseas markets, according to Stephen J. Kukan, general manager of area development for PSE&G.

Also flourishing in New Jersey is the Jersey Central Power & Light Company (JCP&L). "The New Jersey advantage is its location," emphasizes President Dennis Baldassari. JCP&L's utility rates — along with rebates, incentive payment and specialized rates — are

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



competitive with other Northeastern utilities. However, here in New Jersey, says Baldassari, "there's a real operating advantage."

One recent customer is Connecticut-based Savory Equipment Corporation, a maker of commercial food-warming and cooking equipment with a plant in Lakewood in central New Jersey.

Through a State Department of Labor grant, JCP&L helped train 125 Savory employees in world-class manufacturing techniques to increase the company's

communications system in the country. To date, more than 100 SONET fiber-optic rings — designed for uninterrupted service — have been installed in key urban areas where data transactions are the heaviest. For example, World Trade Center data operations for banks and



(Above) Biker in Ocean City (Below) Historic Smithville

operating efficiency. It helped Savory lower its operating costs after performing an energy audit and tendered an \$18,000 rebate for hiring 75 new full-time employees.

For its part, Bell Atlantic Corp. is using New Jersey as a showcase for the most innovative voice, data and video

brokerages continued after the 1993 bomb blast without interruption in Jersey City, thanks to Bell Atlantic's SONET capability.

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capabilities. The New Brunswick and Camden campuses of Rutgers University already use ISDN for department meetings.

In partnership with Rutgers and the New Jersey Department of Commerce, Bell Atlantic conducts business retention, attraction and expansion programs for New Jersey communities. It will help a city or town with a proactive business strategy, such as offering incentive rates to companies that will occupy vacant space or hire new employees.

With Governor Whitman's plan to downsize state government and outsource some of its functions, procurement opportunities — particularly for small and women- and minority-run businesses — are expected to increase.

"Small businesses are the silver lining in corporate downsizing," says Penni Wild, director of the Division of Development for Small Businesses and

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



Women and Minority Businesses. These are companies with fewer than 100 employees. Remarkably, they represent the fastest-growing business segment. Indeed, they represent 53% of the state's labor force.

According to the State Department of Labor, 200,000 such firms are registered for commerce. But, Wild says, anecdotal evidence suggests there could be just as many sole proprietorships in operation that don't have to register and consequently are not counted among New Jersey's small-business population.

In 1995, many of New Jersey's entrepreneurial enterprises are expected to participate in the White House Conference on Small Business in Washington. According to Wild, the delegation will be recognizable by lapel pins that will read: "Proud To Be A New Jersey Business Owner: Governor Whitman Values My Opinion."



(Left) Christine Todd Whitman, Governor of New Jersey (Right) Gualberto Medina, Commissioner, New Jersey Dept. of Commerce and Economic Development

TRANSPORTATION

New Jersey is at the heart of a megalopolis that sprawls from Boston to Washington, D.C., and is the preferred gateway of commerce to and from international markets.

Companies in the Garden State have immediate access to more than 60 million consumers with a collective purchasing power of \$800 billion. The state's reach for overnight delivery of products extends into 12 surrounding states.

In addition, sales calls can be made using any of the 35,000 miles of highway that connect corporations, serve commuters and move merchandise throughout the state and to adjoining markets.

Says Jerry Senion, general manager of Frigidaire in Edison, "The speed of delivery to our markets in New York, Philadelphia and Washington is key."

New Jersey's shipping ports on the Hudson and Delaware Rivers are leaders in using the latest in electronic data interchange for fast and accurate record-keeping and routing intermodal cargo containers back and forth from ships to freight trains and delivery trucks. The ports of Newark and Elizabeth alone handle more than 12 million tons annually, while Newark International Airport, one of the fastest-growing international airports, will soon move even more passengers around with its world-class monorail system nearing completion.

"This region is the best area to do business," says Kathleen Donovan, chairperson of the New York-New Jersey Port Authority. "It has the ability to move people and cargo quickly; the unemployment rate is down, and the business climate is aggressive and yet friendly."



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With 28 offices worldwide from Beijing to Bogota, American Re is at home almost everywhere, but when it came to relocating our home office, New Jersey had the most to offer.

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Improved front ventilated power disc brakes increased in diameter up to 12.8 inches. New oil to air heat exchanger cools transmission fluid for prolonged life. New weight-saving, larger single fuel filter. Anti-theft stereo cannot be used in other cars.

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New glass covers on headlights for reduced drag and wind noise. Signature twin kidney grills integrated into hood.

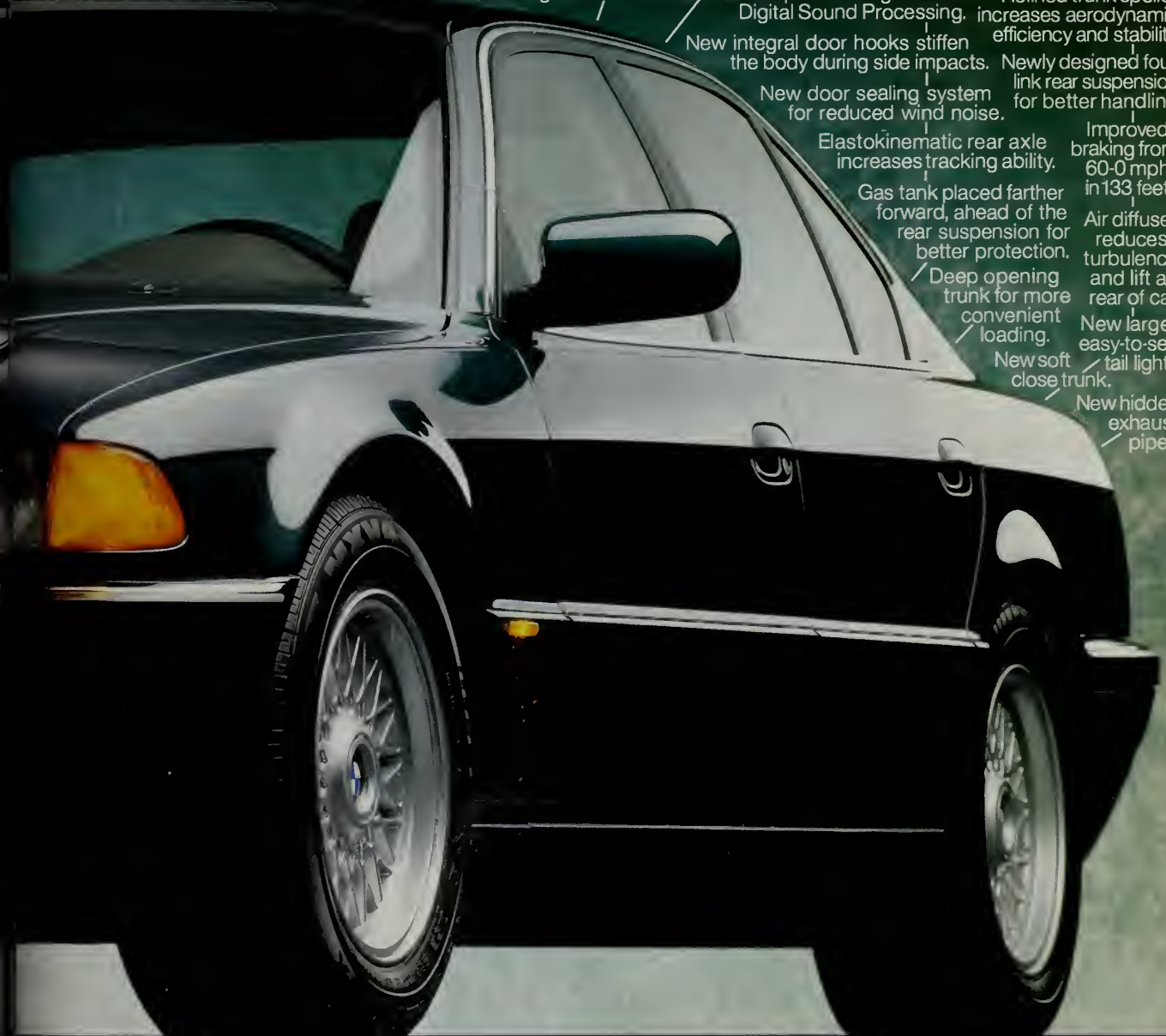
New ring reflector for low beam ellipsoidal headlights.



What we didn't change.

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Redesigned intrusion beams help reduce passenger cell damage in an accident. Improved energy absorbing drive shaft. New automatic recirculation control for cleaner air. New 14-way power adjustable seats. New compact single vacuum brake servo reduces weight. Passenger seat occupation detector prevents airbag activation when not required. Improved active-charcoal filter helps create a cleaner interior environment. New closable storage pocket on seat backs. Driver's seat memory also remembers steering wheel and side mirror settings. Integrated mount for optional cellular phone. Residual heating system keeps car warm up to 16 minutes after parking. Rear disc brake diameter increased by one full inch. Redesigned windshield wiper stalk allows for broader range of intermittent adjustments. New hinged walnut dash panel hides infrequently used radio controls for more luxurious appearance. Closable air vents. Wider front seat frame. Reduced fan noise for quieter cabin. New Comfort Seat with adjustable power upper backrest optional. New rear cup holders. New temperature controlled air for rear compartment. New pyrotechnic seatbelt tensioners. New supple Montana leather-covered seats, doors and armrests resist wear better. New cruise control, air circulation, stereo and telephone controls integrated into steering wheel. New four-way power adjustable lumbar support. New available 14-speaker, 440-watt stereo system. New speaker components and positioning for improved richness of sound quality. No key hole on passenger door reduces the chance of curbside break-ins. New larger glovebox. New front cup holders. New LED temperature readout. Improved soft foam in headrests. One-touch power up and down on all four windows. New optional Programmable Digital Sound Processing. Refined trunk spoiler increases aerodynamic efficiency and stability. New easier to use headlight switch. New remote trunk release switch. Telescopic power steering wheel improved for better reliability. New integrated closable storage bins on doors. New integral door hooks stiffen the body during side impacts. New door sealing system for reduced wind noise. Newly designed four link rear suspension for better handling. Elastokinematic rear axle increases tracking ability. Improved braking from 60-0 mph in 133 feet. Gas tank placed farther forward, ahead of the rear suspension for better protection. Air diffuser reduces turbulence and lift at rear of car. Deep opening trunk for more convenient loading. New larger, easy-to-see tail lights. New soft close trunk. New hidden exhaust pipes.



THE NEW 7-SERIES



New Jersey

WHAT A DIFFERENCE A STATE MAKES.



One of the port's neighbors is luxury carmaker BMW, which celebrates its 20th year in New Jersey this year. BMW has four facilities in New Jersey, including a vehicle preparation center in Jersey City and a corporate headquarters that overlooks an apple orchard in Woodcliff Lake. "This is a good location for us in maintaining our sales exposure," says Richard Brooks, corporate communications vice president.

Air traffic around New Jersey will improve with the expansion of the Atlantic City International Airport, located on the grounds of the FAA's premier aviation research center. In Pomona, the FAA is building a \$24 million advanced automated aviation system laboratory. Not far away is Stockton State College, which emphasizes aviation engineering.

Already companies involved in light electronics manufacture relating to casino gaming and security and aviation are signing leases for industrial space in the FAA center. What they don't move by air, the startup companies will be able to move by truck, and then either by ship or one of the three

Class I railroads in Camden operated by the Delaware River Port Authority.

"We keep labor costs competitive," says Paul Drayton, the authority's executive director. The Port Authority recently signed an agreement with the

South Jersey Transportation Authority to move freight from the budding Atlantic City air industrial park to the Camden terminals. In turn, the new



Branch Brook Park, Newark

business will augment the Camden-Philadelphia ports' international cargo of steel, fruit and wood.

Commerce in New Jersey is also benefiting from the funding the Whitman Administration is pumping into a far-

reaching transportation strategy, not only to maintain the current infrastructure, but also to ready it for the 21st century. In addition, the state offers employers tax incentives for ride-sharing programs from its Department of Transportation.

New Jersey's enviable distribution network makes a difference in the business generated by its companies. "We certainly have opportunity here," comments Eric Steenburgh, president of the \$1 billion Ricoh Corporation in West Caldwell. In the last two years, the Japanese-owned company has increased its workforce in the state by 10% to 800, and has introduced 50 new multifunction copier products. It uses New Jersey's distribution infrastructure to reach its target customers in the Northeast.

Steenburgh, who awards high marks to the diversity of skills found in the state's workforce along with its transportation alternatives, adds, "There's a lot of expertise to be found here."

Helping corporations make the most of New Jersey's skilled workforce is ASI, an employee leasing company based in Green Brook. Ac-

cording to President Stephen L. Farkas, ASI leases over 1,700 employees to more than 225 New Jersey businesses. Employers benefit by letting ASI handle non-productive administrative responsibilities, including the time-consuming

We're In A State That Knows How To Mind Its Business.

Based in Livingston, New Jersey, The CIT Group values our home state for its economic opportunities, vast resources and eclectic population.

As America's most experienced asset-based lender, we help businesses and homeowners across the country tap the value of their assets for financing. Funds are used for purchasing and

leasing equipment; working capital and lines of credit; debt restructuring; acquisition and buyouts; factoring; consumer mortgages and more.

The CIT Group has been making loans and friends since 1908. For more information on how we can help you, write The CIT Group, 650 CIT Drive, Room 2342, Livingston, NJ 07039.



AMERICA'S
MOST EXPERIENCED
ASSET-BASED
LENDER.

human-resource functions of payroll, federal and state tax compliance and employee benefits. Employees benefit by gaining access to a better, more complete benefits package. In this way, ASI creates a win-win situation for employers and employees.

That New Jersey offers businesses a competitive edge is also illustrated by the Sharp Electronics Corporation's success during its 30-year tenure in New Jersey. According to Daniel J. Infanti, vice president of corporate communications and marketing, "much of Sharp's success is due to its location in Mahwah, which has proven to be advantageous as a distribution center for its numerous product lines and parts supply with easy access to major seaports, four international airports and a far-reaching highway system. The local population has provided an extensive and talented labor pool for operations in the facility where the North American U.S. headquarters' management staff has achieved sales in excess of \$2.8 billion."

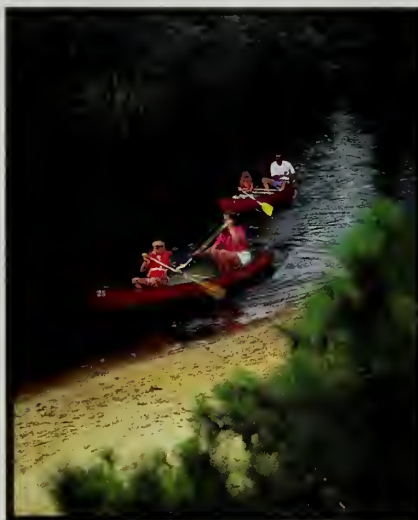
New Jersey

WHAT A DIFFERENCE A STATE MAKES.



A UNIQUE TAX STRUCTURE

"New Jersey should be the engine of economic growth that leads this nation into the 21st century," Governor Whitman said in her inaugural address of a year ago.



(Above) Pine Barrens (Below) New Jersey offers a variety of office complexes in park-like settings.

Since then, the Whitman Administration has moved swiftly to make a difference in the state's revenue structure. Today, New Jersey is open for business, and companies can take advantage of:

- A 15% decrease in the personal income tax rate
- A reduction in the overall corporate tax rate that gives New Jersey businesses one of the lowest rates in the Northeast
- Elimination of the corporate tax surcharge
- The lowest workers' compensation tax in the country
- \$17 million in grants to develop new technologies through collaborative research between industry and academia
- \$444 million in capital funding to improve the state's transportation network, protect its shorelines, and address other infrastructure needs and impending growth
- \$6 million to promote travel and tourism in New Jersey — one of the state's largest industries
- An Office of the Business Ombudsman within the Office of the Secretary of State to cut through red tape involved in permitting and other regulations
- Port unification that gives New Jersey companies the competitive edge in shipping their products
- A \$50 million Workforce Development Partnership Program, which continues the state's job retraining efforts
- An Economic Master Plan with a long-term strategy to stimulate the state's economy and job growth.

In addition, New Jersey does not have:

- Capital stock tax



PRODUCTIVITY TO THE POWER OF 3



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copier, you're outputting copies so close in quality to the original, you'll have to look twice. Plus the MV715 can also function as a PC-connectable laser printer emulating the HP LaserJet® IIIP with PCL5.

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New Jersey

WHAT A DIFFERENCE A STATE MAKES.



- Unincorporated business tax
- Commercial rent or occupancy tax
- Retail gross receipts tax.

New Jersey further provides major investors with tax and financial incentives. Recent changes include the creation of new tax credits, recognition of additional filing statuses and repeal of the business personal property tax.

AN ECONOMIC GENERATOR

American Re-Insurance Company knows the importance of a talented workforce in achieving superior corporate results. The company, a world leader in the property and casualty re-insurance industry, was growing and successfully competing against foreign competition. But in 1988, it needed to find a cost-efficient way to expand its headquarters. It needed more space, more staff, better access to emerging technologies and a better quality of life for its employees.

American Re's executives scouted out 200 locations in eight states. The winner? Princeton University's burgeoning Forrestal Center on Route 1 — a 1,750-acre corporate campus built around James Forrestal Research Company, which contains the Princeton Plasma Physics Laboratory and is modeled after California's Stanford Industrial Park and North Carolina's Research Triangle Park.

American Re relocated 200 employees to the Princeton area when it

moved. Also, while the headquarters building was under construction, it opened an office in Forrestal Center to

cated, motivated and skilled employees who have, in the past five years, helped us increase our statutory net written premiums by 45%, and build our statutory assets from \$3.1 billion to \$4.1 billion while increasing productivity, as evidenced by a staff increase of only 19% during this time period."

Another bonus was the dramatic drop

in staff turnover — from 9% to 4% after opening its New Jersey headquarters. Besides an improved quality of life, American Re's executives find that in Princeton they can work with local industries in identifying emerging environmental technologies — another part of what, Jobe says, gives American Re an edge over its competition. "Princeton University is also a wonderful neighbor and resource."

New Jersey's real estate advantage is also enjoyed by Mita Copystar America, Inc. in Fairfield. Two years ago the Japanese company built a new U.S. headquarters on 17 country acres off Route 80, setting aside five acres for a community park. The complex combined national offices with



The Victorian charm of Cape May

hire locally and to provide training for positions that would be vacated upon the relocation. "This was a highly successful effort," says Chairman and CEO Edward B. Jobe. "When we moved in, we were fully staffed with highly edu-

the company's Northeastern regional sales force operations. Of the move, Calvin Rosen, vice president and general counsel states, "It helped increase our efficiency and our exposure."

For an international company, Mita's

Bring us your dynamic,
your growing, your
success-oriented business,
yearning for a place
to prosper...



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Gateway America – the heart
of New York and New Jersey.
And the world's capital of
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We have the greatest airports system anywhere.
This includes the world's leading air cargo center.
Our airports handle one-third of all overseas cargo
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We have industrial parks, the largest Foreign-
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things moving at the speeds you need for success.

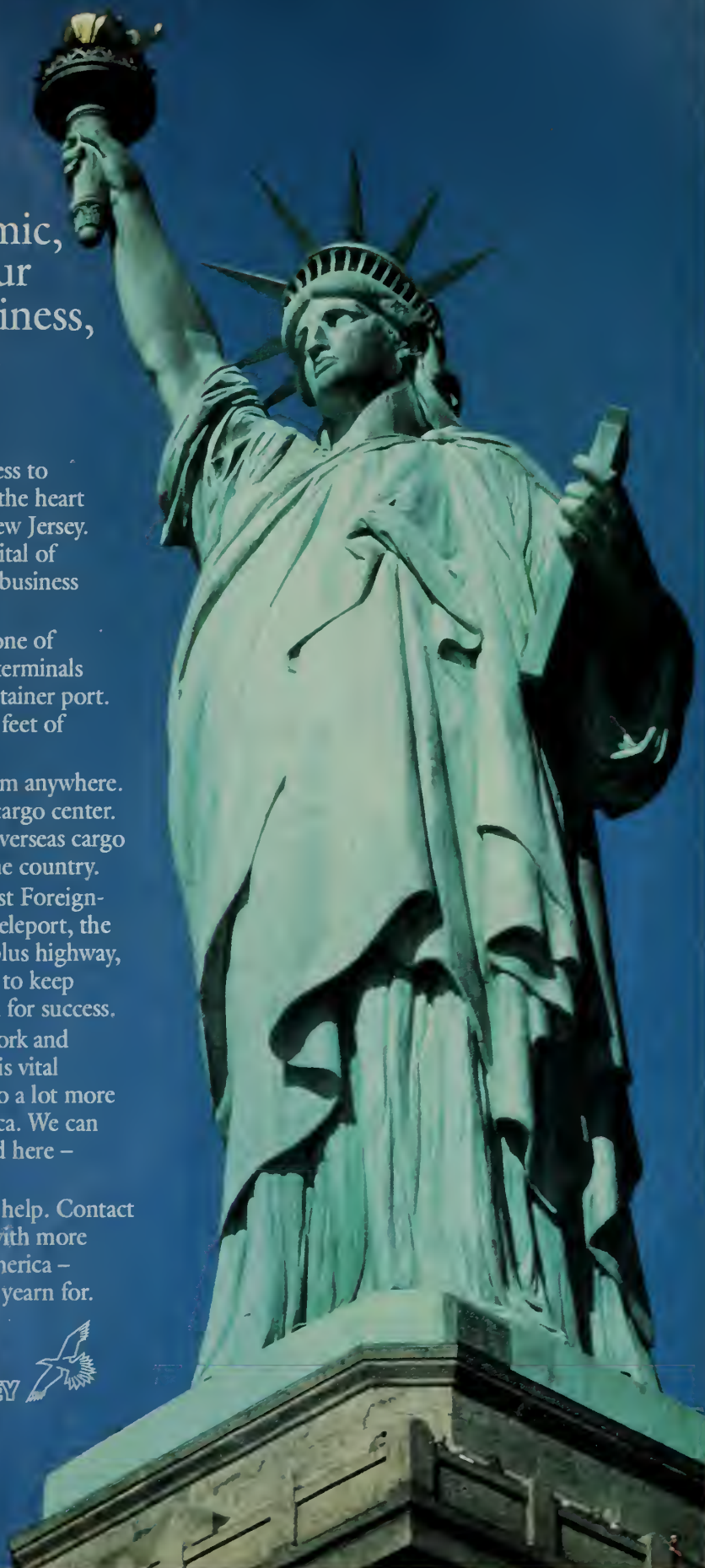
We're the Port Authority of New York and
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actually help your business get located here –
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New Jersey location is also a benefit to its management and employees. "The diversity here makes us feel comfortable," Rosen explains.

Mita and American Re-Insurance will soon have new neighbors when a new high-technology park goes up in nearby New Brunswick. The medium-size park will offer reduced rates to first-time tenants who are involved in the research of pharmaceuticals and biotechnology or the manufacturing of medical equipment.

NEW JERSEY'S GEOGRAPHIC DIVERSITY

Joe Friedman, executive director of the state's Motion Picture and Television Commission, is quite aware of the geographic variety New Jersey has to offer. Real estate means revenues as the commission matches L.A. producers, New York directors and foreign filmmakers with Garden State locations and suppliers of everything including blimps, portable toilets, cosmetics and hammers.

"We are America in miniature," says Friedman, quoting the National Geographic writer's oft-repeated line that expressed his surprise at what he found on assignment here.

Mr. Friedman adds, "What you need, we have." A moonscape for an electronics commercial? Try the Pine Barrens around Chatsworth. A Tuscany mansion for a refrigerator commercial? Try the Gill St. Bernard's School in Gladstone. A traffic jam on the Long Island Expressway for a Hollywood movie? Try the Meadowlands extension of the New Jersey Turnpike. A desert for a female buddy movie? Try the sandpits in Lakewood. A millionaire's mansion for an orphan? Try Shadow Lawn, the

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



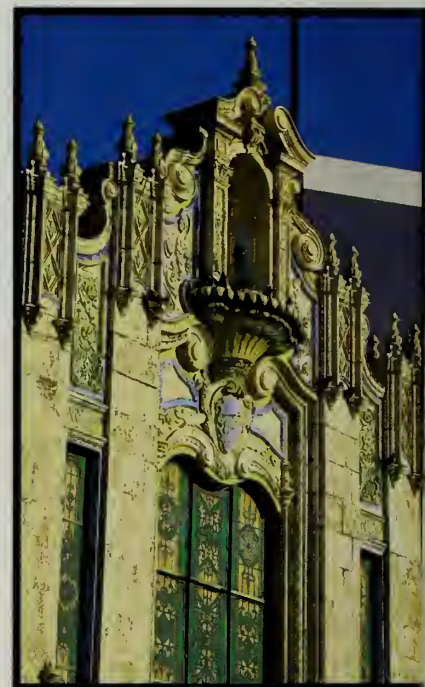
administrative offices for Monmouth College in West Long Branch.

Need an assembly line? A boardroom for angels? Locations for a love story involving Albert Einstein as the matchmaker? Last year the commission helped Paramount Pictures find locations around Princeton and suppliers around the state for "I.Q." When it finished filming here, \$5 million worth of business had been brought to New Jersey — the highest amount to date involving a motion-picture project.

In all, a record-breaking \$30 million came into the state in 1994 through the commission's efforts to integrate New Jersey's real estate and businesses into Hollywood movies, New York commercials, documentaries, music videos and

German and Japanese television series, in addition to 42-plus foreign films.

The CIT Group also believes that a contributing factor to its growth has been its New Jersey location. President and CEO Albert R. Gamper Jr. has this to say about the state: "There is nothing more critical to the success of the CIT Group than the quality of its people."



(Above) Atlantic City's past and present (Below) Old Barracks, Trenton



CHALLENGE ME

*To structure your
business financing package—
quickly and simply.*

Stephen A. Jarossy, Midlantic Relationship Manager, helped turn real estate into working capital for A.M.D., INC., custom injection molders.

As your Relationship Manager, I *know* your business. I make your concerns my concerns.

Challenge me—and get the fast response your one-of-a-kind business deserves. I'll orchestrate a winning team of banking professionals—and provide the solutions your business needs to grow and succeed.

How A.M.D., INC. challenged Midlantic

CHALLENGE: "We wanted to restructure some over-collateralized debt to free up working capital. Our existing bank was unwilling to do the deal."

RESPONSE: "Midlantic committed in two weeks—and A.M.D. gained significantly in monthly cash flow."

We're your one source for the best in business banking. We've got money to lend—as well as cash management, commercial mortgages, investment services and employee benefit plans. Want someone really responsive to your banking needs?

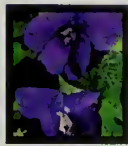
Challenge me—call me anytime at 1-800-255-2608.

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SERVICE. WE DIDN'T INVENT IT. WE'RE JUST TRYING TO PERFECT IT.

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



"Our location in New Jersey provides us with top-caliber employees who are the driving force behind the company's ongoing profitability.

"CIT has nearly 600 employees throughout the state, most of whom are located in our headquarters in Livingston. Part of what makes New Jersey a great state in which to do business is the fact that it is made up of great communities. Helping these communities is an extensive network of volunteers from companies like CIT. Through our Community Involvement Team, CIT employees are deeply committed to volunteer activities that range from tutoring children to building affordable housing for them to live in. And CIT also helps to keep employees informed about the issues facing New Jersey and the country through special forums.

"We believe that better citizens make better employees, and we believe that our New Jersey location enables CIT to have the best on both counts."

Encompassing a range of rustic towns and urban neighborhoods, Warren County also provides testimony to New Jersey's geographic diversity. Located in the Skylands region in the northwestern section of the state, Warren County serves as a center for many manufacturing as well as agricultural industries. Its infrastructure includes two major interstates, rail and bus service to major cities and access to three international airports.

Warren County proudly claims the first waste-to-energy plant in the state — producing electricity for sale to Jersey Central Power & Light. Also located in Warren County is the Merrill Creek Reservoir, a

consortium of seven regional electric utilities that contains a 2,000-acre watershed, 650-acre reservoir and 290-acre preserve that is open to the public.

Elsewhere in the Garden State, new business neighbors will be moving into 20 different Urban Enterprise Zones (UEZ).

In the north of the state, companies have their choice of Phillipsburg, Passaic, Paterson, Plainfield or the Hudson Harbor cities of Newark, Elizabeth, Jersey City and Kearny.

In the gently rolling hills and pine forests of the state's central region, the choices include Trenton, Perth Amboy, Lakewood and the joint zone afforded by Long Branch and Asbury Park on the Jersey Shore.



(Left) State House, Trenton (Right) New Jersey Countryside



Uniting The Delaware Valley In Transportation, Ports, & Economic Development

The Delaware River Port Authority has been building bridges for 75 years. But not just those made of steel.

Over the years, our dedicated team of professionals has built a solid business environment based on transportation, access to international markets and a regional approach to problem solving.

Our recent accomplishments include unification of the Delaware River ports, the opening of the highly successful AmeriPort Intermodal Center and an aggressive regional economic development program.

What is next on our agenda?

We are working to reduce regional traffic congestion, assist in the commercial revitalization of the Delaware River waterfront, and helping to extend the Philadelphia-South Jersey public transit system—one of the best in the world.

As we continue to bring together the talents and resources of South Jersey and the entire Delaware Valley, we will continue to cultivate a dynamic and expanding business environment.

Bringing business, government and community together is something we do well.

After all, the Delaware River Port Authority builds bridges.



**Delaware River
Port Authority**

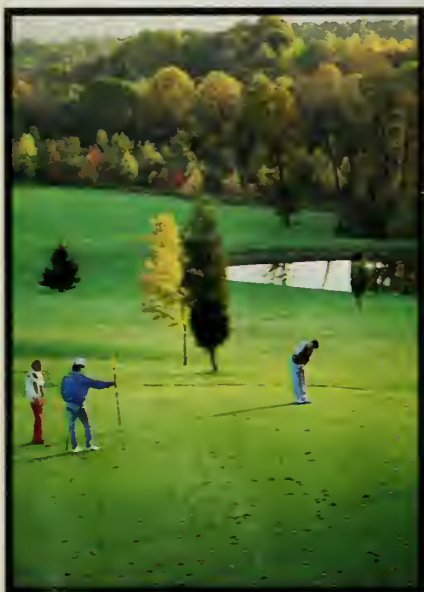
New Jersey

WHAT A DIFFERENCE A STATE MAKES.



In the sprawling coastal plain in the southern lowlands, urban real estate is available in the Millville-Vineland zone and in Camden and Bridgeton.

The latter two cities, along with the greater Atlantic City area, are pilot centers that will share economic and technical resources to help businesses relocate and expand. "It's a unique economic generator," says Steven Batzer, the chairman of Rollins Hudig Hall, Inc. and the Southern New Jersey Development Council.



Already high-tech aviation and casino equipment companies are investigating the possibilities of a move into the industrial park springing up around the FAA Technical Center, where the Atlantic City International Airport is undergoing renovation just minutes west of the resort city.

Companies considering relocation can also look forward to receiving help from Bell Atlantic, PSE&G and JCP&L. All have relocation programs and reduced rate packages for the various UEZs.

New Jersey is also granting qualified companies certain tax credits in exchange for creating jobs within a UEZ. A retail business, for example, can charge consumers half the state sales tax on the purchase of certain merchandise. A portion of these funds

are then placed in a special zone assistance fund for infrastructure projects within those zones.

FINANCING OPPORTUNITIES

Financial opportunities designed to make a difference in New Jersey are multiplying every year in the public and private sectors.

Acting as the state's financing agency, the independent Economic Development Authority structures commercial lending, investment banking and real estate and finance packages. EDA's innovative financing structures led to \$622.7 million in investments in New Jersey in 1994, producing 4,700 new permanent jobs and nearly 5,300 construction jobs while keeping 700 New Jerseyans employed. To date, nearly \$360 million in financings have been arranged for 250 projects. This performance places New Jersey among the top development lenders in the nation.

"Our purpose is to generate jobs," says Anthony R. Coscia, a lawyer who chairs the nine-member Board of Directors that oversees the EDA's far-reaching lending programs.

The EDA's role in helping small and medium-size businesses grow includes bridging finance gaps by serving as a public lender, placing borrowers with financial institutions and lenders, as well as offering a broad range of loans, loan guarantees and tax-free and taxable bond packages. In addition, the EDA is instituting a venture capital fund and is acquiring real estate for adaptive reuse in the state's biotech incubator project in North Brunswick.

The most recent loan programs insti-



(Above) Golfing at one of New Jersey's more than 200 golf courses
(Below) New Jersey along Route 80

"Jersey Central Power & Light brings new energy to business."

D. Baldassari

Dennis Baldassari, President, JCP&L



Glitterwrap, Inc. co-founders Al Scott and Melinda Scott-Katzman with Dennis Baldassari, center.

For Glitterwrap[™] to find a place for their red ribbons, they needed a business partner who could cut through the red tape.

Even the most successful companies can sometimes use a hand. Glitterwrap, a manufacturer of specialty gift wrap, was ranked 38th among *Inc.* magazine's 500 fastest-growing companies and had expansion plans in spite of a price war and sluggish economy. To compete, they needed to consolidate their administrative and manufacturing functions into one facility, operate more efficiently, and remain close to domestic and international transportation hubs.

That's when Glitterwrap called Jersey Central Power & Light Company. And one call is all it takes to send JCP&L's Powerplus Team into

action. They provided contacts for employment training grants, plus helped Glitterwrap reduce costs with energy management programs and more efficient equipment.

Using an extensive computerized data base of commercial and industrial



For a free brochure call the Powerplus Team at 1-800-770-7071.

locations, the Powerplus Team can help you with site selection...but that's just the beginning. They are experts who can guide you through your entire relocation or expansion. And all of JCP&L's services are offered free of charge.

Today, Glitterwrap is thriving, operating from a single location in Rockaway, New Jersey, more than doubling the size of their facility.

If you are considering a move, an expansion of your space or work force, or need energy management advice, call JCP&L's Powerplus Team first. We've got all the answers wrapped up in one, neat package.

JCP&L

A GPU COMPANY

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



tuted by EDA include:

- A statewide loan pool of up to \$1 million for fixed assets and \$500,000 for working capital. Loans in excess of \$3 million are also available.

- New Jersey Worldwide — a one-year revolving line of credit up to \$1 million for pre- and post-export costs provided by lending institutions in participation with EDA.

- A Community Lending Program that offers loans in partnership with the Federal Home Loan Bank of New York and its member New Jersey institutions to help community-based businesses that employ low- and moderate-income residents.

This first-ever public-private partnership of its kind in the country brings together the EDA, the Federal Home Loan Bank of New York and its 113 New Jersey members. Using the FHLB's Community Investment Program, the partnership is looking to expand urban neighborhood business opportunities at attractive interest rates.

"We're here to make a difference by offering the critical help that will make a business viable," adds Coscia from his office in the New Brunswick branch of the law firm of Windels, Marx, Davies & Ives.

Businesses can also receive additional assistance from the state's Division of Development for Small Businesses and Women and Minority Businesses. "We help businesses get ready to be loan-

ready," says Director Wild. "Contrary to popular perception, commercial banks want to loan money. Our job is to help businesses be good credit risks."



Barnegat Lighthouse, Barnegat, New Jersey

Waiting at the other end of the table are banks like MidLantic Corporation, headquartered in Edison with \$13.9 billion in assets, where Chairman, President and Chief Executive Garry

Scheuring reports, "Our volume of loans to small businesses has increased dramatically. We see continued improvement in 1995."

So does Gerald Lipkin, chairman and chief executive of Valley National Bancorp, a super-regional bank with assets of \$3.5 billion and headquarters in Wayne near the Ramapo Mountains. "Our economy is the most diversified in

the country and that makes us resilient," Lipkin says of New Jersey. "Valley National has prospered because of its location. We reinvest in the state." Besides consumers looking for home and auto loans, and small business owners looking for seed money, Valley National underwrites grants for such community-based projects as nursing homes, health-care centers, Main Street facade improvements and even Habitat for Humanity housing. Adds Lipkin, "It's like the little acorn that becomes the big tree, where growth is the goal, not an obsession."

New Jersey's commercial banks maintain deposits exceeding \$45 billion and a \$10 billion portfolio of commercial and industrial loans — among the largest in the nation. Included in this group is the United Jersey Bank

Financial Corporation, headquartered in Princeton. UJB Financial's total assets equal \$15.5 billion, making it one of the largest bank holding companies in the nation. Formed in 1970 as

Introducing a revolutionary idea in insurance. The customer.

It's a bit shocking at first. Some might even say radical for an insurance company. But like most revolutionary ideas, this one isn't new. It just hasn't been around in a while. Except in a few places, like Atlantic Mutual.

For over 150 years we've put the customer first, and it hasn't hurt us one bit. The secret of our success? A very simple discovery: Never group dissimilar business customers together. Recognize their differences and take it from there.

Instead of lumping you together with all our other customers, we pool you with those that share similar risk potentials. So your premiums are based on reason, not blind reaction.

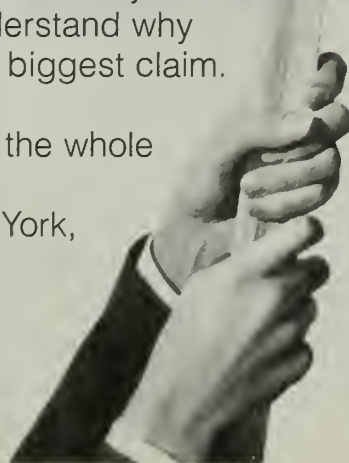
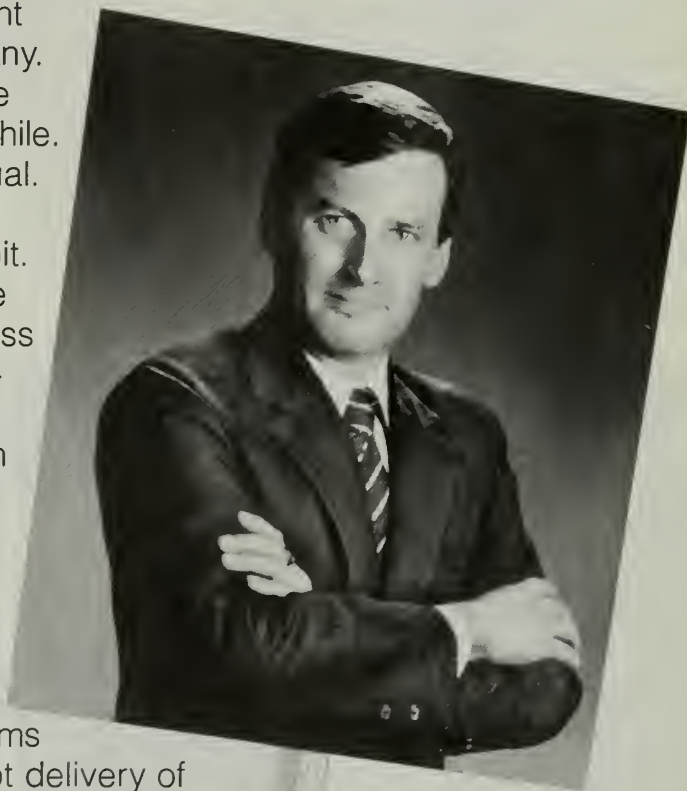
Add exceptional responsiveness through a network of agent and broker information processing systems, fast claims service, effective loss control, and prompt delivery of policies and amendments, and you'll understand why protecting our customers' interests is our biggest claim. In New Jersey and every other state.

After all, wasn't customer protection the whole idea of insurance in the first place?

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Property, casualty and marine insurance
since 1842.



a \$1 billion company with five New Jersey member banks, UJB Financial now ranks second in New Jersey in commercial and industrial loans, demand deposits and home equity loans.

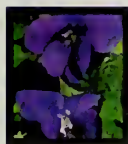
EDUCATION, LABOR, SCIENCE & TECHNOLOGY

New Jersey is the Invention State. It leads the U.S. in research and technological advances, rivaled only by California in the number of patents produced. This is illustrated by a number of New Jersey "firsts." In 1883, for example, Roselle was the first town to be illuminated by electricity. In 1961 in Ewing Township, the General Motors Company was the first industry to make use of a labor-saving robot. And in 1879 in Menlo Park, Thomas A. Edison created the world's first incandescent lamp.

Today, New Jersey's high-tech highway

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



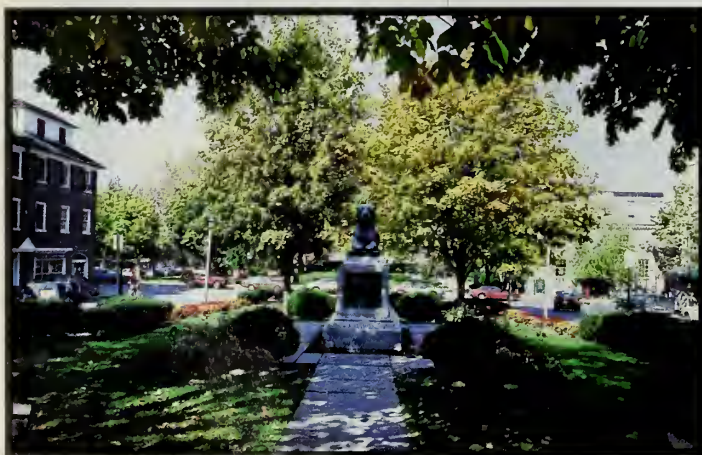
Squibb, Allied Signal, Wyeth-Ayerst Research, Bellcore, Schering-Plough, Johnson & Johnson, Merck Research, Ciba Pharmaceuticals, Exxon Research and Engineering, AT&T Bell Labs and the David Sarnoff Research Center.

New Jersey is the nation's top producer of pharmaceutical discoveries and products — responsible for one-quarter of all research and health-care products, according to Dr. Jay Brandinger, executive director of the state's Science & Technology Commission, which promotes collaborative efforts among academia, government and industry.

the University of Medicine and Dentistry of New Jersey, Rutgers' Newark campus and Essex Community College. It will focus on biotechnology research, education and the performing arts, and will include residential dwellings and local commerce.

From Newark south to New Brunswick and then to Princeton, PARRC's research geography extends farther south to include Lawrenceville, home of Rider University. Rider recently achieved its current university status, has a strong MBA program.

Engineer Sarup Bakhshi pursued an MBA at Rider. Today he is director of engineering for Frigidaire in Edison, where he is helping to lead the East Coast division's multidisciplinary team in the "design for manufacture" strategy that has made the division successful in



(Left) Palmer Square, Princeton (Right) Sunset, Jersey City

— running through most of the state — is where some \$6.5 billion in R&D is spent. Now known as the Princeton and Rutgers Research Corridor (PARRC), Route 1 was historically a simple highway through farmland. Today, however, it is the research heartbeat of the state's two leading universities, pumping life into partnerships with Bristol-Myers-

The Research Corridor's northern reach extends all the way into Newark where an expanded university research community is taking shape. The foundation for the Newark Science Park has already been laid by the New Jersey Institute of Technology,

producing room air conditioners and dehumidifiers. "You don't get pigeon-holed," Bakhshi says of this approach, which involves employees with expertise

Mita copiers can help any office get out of the stone age.

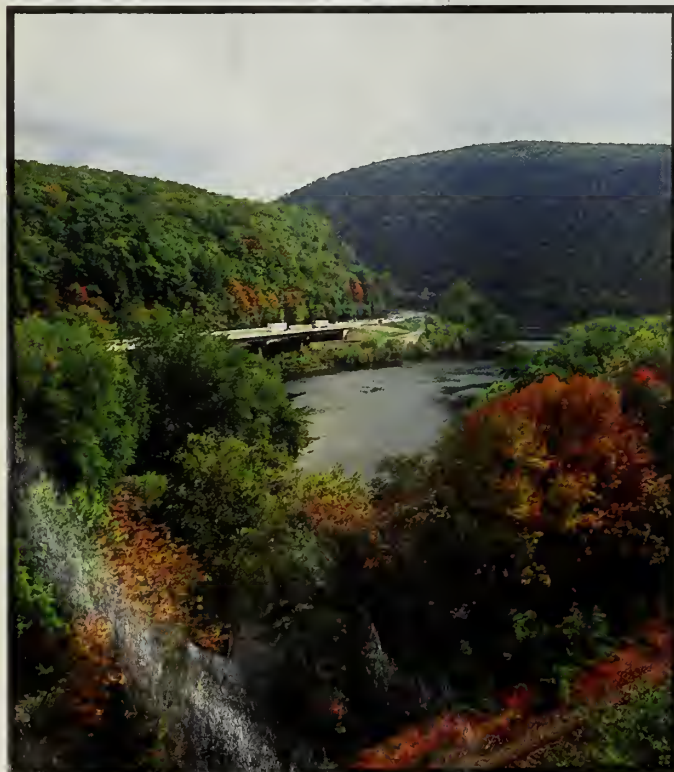
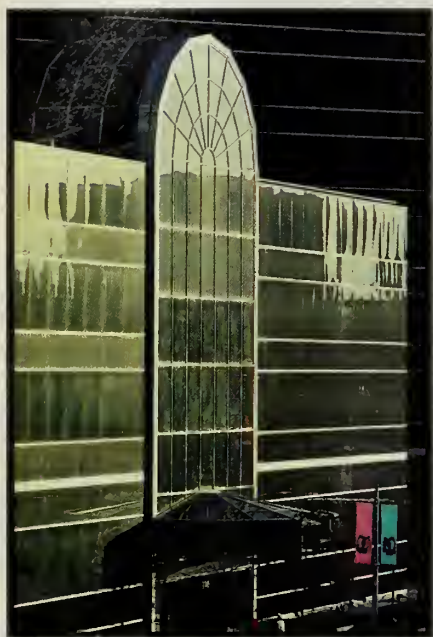


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in cost-accounting, manufacturing and design.

Continuing south on Route 1 into the state capital, executives will find Trenton State College, which concentrates some of its academic efforts on a degree program in electrical engineering



(Above) PSE&G Building, Newark
(Below) Delaware Water Gap

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



research. Farther south still is Rowan College in Glassboro, where New Jersey's revival of science education is focused on marine and biology research. Not to be outdone is the Richard Stockton State College in Pomona, across the Pine Barrens, which has an innovative aviation engineering program affiliated with the FAA Technical Center.

"These are some of the jewels of New Jersey's future," comments Brandinger, a former RCA engineer at the Sarnoff Research Center.

New Jersey has 55 colleges around the state that offer a broad range of aca-

ademic and scientific study. There are two-year schools that help prepare students either for employment or to matriculate at four-year institutions. Nine community college campuses serve as business resource centers under the direction of the State Department of Commerce. The Garden State also has many small, private liberal arts

colleges and several full-fledged universities with Ph.D. programs that foster leading-edge research.

New Jersey is also home to:

- 270 firms devoted to research and development
- More than 140,000 scientists and engineers
- An estimated 700 labs throughout the state

In fact, over \$6 billion is spent by the state's industrial and academic R&D labs annually, and about 11% of all U.S. R&D dollars are spent in New Jersey (85% of that from private companies).

When the result of all that research and development is ready for production, there are four million educated and skilled workers available to meet manufacturing deadlines, Brandinger says.

New Jersey graduates go on to hold top executive posts — such as Rutgers alumnus Gerald Lipkin, chairman of Valley National Bank — and key managerial positions, such as the East Coast responsibilities overseen by Jerry Senion, a Monmouth College graduate who is Frigidaire's general manager. Both executives are bullish on the quality of education in New Jersey — a quality that begins at the elementary school level.

"We have a competent, positive and productive workforce," says Senion of Frigidaire's 1,500 employees. Thanks to them, Frigidaire was able to increase its output of dehumidifiers from 45,000 six years ago to an anticipated 400,000 in 1995. The company further expects to make one million air conditioners this year. "In this business you can't stand still," Senion continues.

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Our employees are the source of our strength, and the key to the successful fulfillment of our mission. The State of New Jersey has helped provide the resources and workforce that has propelled FRIGIDAIRE ahead. In partnership with New Jersey, FRIGIDAIRE is looking forward to continuing its tradition of quality and innovation.

WORKING WITH NEW JERSEY TO CREATE A BETTER TOMORROW

What helps keep Frigidaire moving is tapping into young talent at schools such as the New Jersey Institute of Technology with whom the appliance company has a work-study program. "The strongest attraction of New Jersey is the people," says Senion, who places

top engineering-design students in the company when they graduate. He is also satisfied with the high quality of training Frigidaire's technicians receive in the Institute's two-year vocational programs.

"They are superbly trained," he

adds. All of Frigidaire's employees "have a real sense of competition. We have everything here — as much, if not more so, than any other region in the country."

Dick Shoemate, chairman and CEO of CPC International, agrees. CPC International, a global consumer-food and corn-refining company with locations in 59 countries on five continents, values its New Jersey roots. According to Shoemate, "With three manufacturing plants, headquarters operations and more employees than in any other state, CPC has a significant investment in New Jersey. Therefore, the state's improving business environment is encouraging to us. New Jersey is an ideal location for an international company such as CPC: The local employment pool easily provides the broad range of skills and experience our businesses require. And the great diversity



(Left) Elizabeth Port Authority Marine Terminal Foreground (Right) View from Newark International Airport

New Jersey

WHAT A DIFFERENCE A STATE MAKES.



National Park Service has written a separate Japanese translation of the inven-

tor's laboratories and estate tour.

Conlin predicts fiscal year 1995 will be a banner year for New Jersey tourism for a number of reasons:

- The Miss America Pageant celebrates its 75th year in the historic Convention Hall in Atlantic City
- Ethnic festivals are up to a record

of the state's population makes it a welcoming environment for international visitors and business contacts."

QUALITY OF LIFE

Gerald Lipkin has an office minutes away from some of the more challenging golf courses to host PGA tournaments in the Northeast. In less than an hour, Jerry Senion and his family are aboard their boat, moving through the Intracoastal Waterway in Barnegat Bay. On opening night, Edward Jobe and his wife may be found at the Tony Award-winning McCarter Theater in Princeton just down Route 1 from his corporate office.

Other executives like them are enjoying a lifestyle within easy reach of both their headquarters and their homes. Not far away is the Victorian charm of Cape May, the rugged beauty of the Delaware Water Gap and the celebrity headlining acts of Atlantic City. New York and Philadelphia are just across the Garden State waterfront.

"New Jersey enriches people's lives," observes Linda Conlin, director of the state's Division of Travel and Tourism. Indeed it does, to the tune of more than \$20 billion a year in revenue, making tourism the state's second-largest industry. Restaurants, retail sales, gaming and lodging are the top revenue producers.

The greatest number of overnight visitors come from New York, Pennsylvania, Ohio, Florida, Massachusetts, Maryland, Virginia and North Carolina. Foreign travelers come from all over the world. In fact, the Japanese contingent is so strong at the Thomas A. Edison National Historic Site in West Orange that the

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our Opportunity New Jersey plan, we're building a state-of-the-art network that will provide fully digital service throughout the state by 2010. This enhanced network will deliver improved healthcare, create new educational experiences for children and provide an array of interactive services to all who live and work here. Our network will help businesses flourish and make New Jersey a more attractive place for companies to relocate.

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New Jersey

WHAT A DIFFERENCE A STATE MAKES.



Camden to house the Haddonfield Symphony and be the southern stage for

the Equity-affiliated Papermill Playhouse of Millburn.

New Jersey's southern region — a coastal plain that rises out of the Delaware Bay and the Atlantic Ocean — is on the same latitude as Washington, D.C. Located here are the fabled Pine Barrens, the largest underground aquifer east of the Mississippi River. It is bordered by a bird-watcher's paradise: the Cape May Bird Observatory to the south and the Forsythe National Wildlife Refuge to the east. Eagles migrate each winter to the state's northwest corner, looking for open water and fish in the Delaware Water Gap National Recreation Area, the state's most visited national park. All these things are boosting New Jersey's eco-tourism, according to Conlin.

National awareness of New Jersey's pivotal role in the formation of this nation also is on an upswing, thanks to efforts such as those of the National Park Service. This federal agency, in

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New Jersey
WHAT A DIFFERENCE A STATE MAKES.



partnership with state, local and private preservation groups, is weaving together New Jersey's maritime, wildlife, coastal, leisure and community histories into a seamless narrative called the New Jersey Coastal Heritage Trail. Its scope is 275 miles of shoreline from Perth Amboy on the Raritan Bay around Sandy Hook, south through the Jersey shore's barrier islands to the tip of Cape May and then north along the Delaware Bay to Deepwater where the New Jersey Turnpike begins. This project is being used as a blueprint for similar heritage proposals elsewhere in America.

Cultural pairings abound in New Jersey. In Jersey City it is the Liberty Science Center, New Jersey's premier science museum and site of the world's largest OMNIMax Theater, and the all-encompassing Liberty State Park with its ferry access to the Statue of Liberty and the immigration museum on Ellis Island.

In Trenton, it is the stunning restoration of the State House coupled with the annual reenactment of George Washington crossing the Delaware. Not far away is the Old Barracks Museum that dates from the French & Indian Wars and later held prisoners in the American Revolution.

In Hackensack, it is the HMDC Environment Center — just ask for the "Trash Museum" — where children learn about the three Rs of trash management: reduce, reuse, recycle. Nearby

in East Rutherford is the sprawling Meadowlands Sports Complex, scene of championship competition in pro-football, basketball, hockey, soccer and pari-mutuel horse-racing, along with rock concerts and world-class ice shows.

Michael D. Francis, chairman of the New Jersey Sports and Exposition Authority, states, "The Meadowlands Sports Complex — Giants Stadium, Byrne Meadowlands Arena and Meadowlands Racetrack — draws eight million customers from around the globe to 600 world-class events every year. The Meadowlands hosted the 1994 World Cup and is home to the 1996 NCAA Final Four as well as to the Giants, Jets, Devils and Nets."

"We make a true difference in the quality of New Jersey life," continues Francis, "and the national and regional business community makes all the difference to us being able to deliver this great array of sports and entertainment offerings. The opportunities at New Jersey's Meadowlands are endless."

The sports industry in New Jersey is flourishing. The baseball team the New Jersey Cardinals — the single-A farm team for the St. Louis Cardinals — plays in the New York-Penn League in the Sussex County town of Newton. The Trenton Thunder — the double-AA farm team for the Boston Red Sox — plays in the state capital. Roller hockey is coming on strong at the Meadowlands, while title bouts are still boxed in Atlantic City and horse-racing can be viewed from the elegant turn-of-the-century wood-frame clubhouse at Monmouth Park.

Individual sporting enthusiasts can

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the International Marbles Tournament; Somerville, site of the country's oldest continuous bike race; Princeton, the home-away-from-home for a permanent

collection of water lilies by Claude Monet; Jackson, scene of the nation's largest outdoor safari and theme park, Six Flags Great Adventure; Ocean Grove, a National Historic Site where Methodists continue the tradition established 125 years ago of setting up a summer tent colony; Franklin, whose zinc mines are now part of a fluorescent rock museum display; and Millville, home of the American Glass Museum with more than 7,500 breathtaking pieces of colored glass — from Mason jars to creations by Louis Tiffany — and a glass-making factory where visitors can learn to make paperweights.

Conlin invites all to call 1-800-JERSEY-7, and come to New Jersey to see for yourself "What a Difference a State Makes."

AUTHOR: HELEN-CHANTAL PIKE

DESIGN: LESLIE SINGER DESIGN, NYC

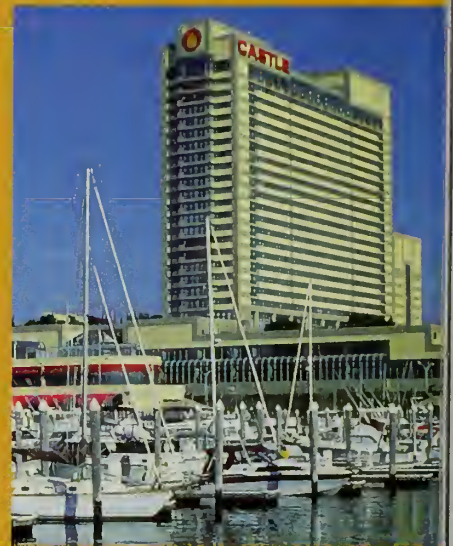
bring their mountain bikes and ride the craggy trails at High Point State Park, where part of the Appalachian Trail passes through, or bike the trails at Hartshorne Woods Park in Locust. In the winter, they can strap on skis and take to the downhill trails at Hidden Valley in Vernon or enjoy cross-country at Tuckerton Lake, just north of Atlantic City. Opportunities are nearly limitless for such activities as ballooning, kayaking, hunting, tubing, ice sailing, canoeing and gliding; fresh water, deep sea and ice fishing, and even whale watching.

Tourism enriches the Garden State in towns such as Wildwood, which hosts



(Above) Polish Festival, Garden State Arts Center, Holmdel, NJ
(Below) Carnegie Center, Princeton

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The time to buy into a cyclical industry is when it's in the dumps. Home construction is in the dumps.

Handicapping the home builders

By Eric S. Hardy

IT HAS BEEN a nasty year for home building stocks. On average the 11 stocks listed in *Value Line* sell down 42% from their 52-week highs. Hovnanian Enterprises is down a horrendous 70%.

No mystery why this sector is depressed: Its products are getting less affordable. A typical fixed-rate 30-year mortgage carries a 9% rate now, up two points from a year ago. This substantially pushes up monthly payments for home buyers. On a \$200,000, 30-year fixed-rate mortgage, the extra 200 basis points means an extra \$280 (pretax) in monthly payments.

The National Association of Home Builders forecasts a 4% decline in housing starts in 1995, and a further 5% decline in 1996. A decline of this magnitude could hit home builders fairly hard, because it may force them to shave prices and throw in extras to move merchandise.

The good news is that this down-

turn in home building is unlikely to be as devastating as the last. From 1986 to 1991, annual housing starts (both detached homes and apartment units) collapsed from 1.8 million to 1 million. Many marginal operators folded.

Although a turnaround in the home building market isn't yet re-



flected in stock prices, it is quite possible that the stock market may have overreacted to the current slump.

What happened to Hovnanian Enterprises is typical. Paying no dividend, the stock has little to prop it up when sentiment turns unfavorable. It now sells for a very depressed 10 times

trailing earnings (to the overall market's 17.5 times). It's a pretty good company. Its diversified output portfolio includes condos, town houses and detached homes with an average selling price of \$135,000. Wall Street analysts tracked by the Institutional Brokers Estimate System estimate Hovnanian's earnings will come in at 67 cents per share for this fiscal year—and then rise to 80 cents a share next year. (Hovnanian is changing its fiscal year end from February to October.)

Of course, there's the risk that the lower-priced homes that Hovnanian specializes in may be hardest hit by the increased monthly payments. Further up the price scale is Toll Brothers, a Pennsylvania builder whose average home costs \$350,000. Toll Brothers stock is off this year's high by 51%, and it sells for just 6 times what the analysts think it will earn this year. At the other end of the spectrum: Lennar Corp. sells starter homes in the \$110,000 area.

Think about regional economies. Hovnanian does most of its business in New Jersey. Do you have faith in Governor Christine Whitman's tax cuts? If Florida continues to flourish, Lennar will do well. Prudential Securities building analyst Lawrence Horan expects the strongest housing market over the next few years to be in Mountain states like Nevada, Utah and Colorado. Del Webb Corp. would benefit from growth in that region.

It may be a while before housing stocks bounce back, but relative to the rest of the market they look pretty darn cheap today.

Solid foundations

Home builder	Region	Recent price	—52 week—		—Price divided by—			Debt as % of equity	Net profit margin	Sales* (\$mil)	Market value (\$mil)
			high	low	book value	earnings	1995 est earnings				
Centex	South, East	21%	45%	20%	0.9	5.9	9.9	113%	3.4%	\$3,391	\$590
Hovnanian Enterprises	New Jersey	4%	16	4%	0.4	10.4	6.1	225	1.7	638	83
Lennar	Florida	15%	25%	14%	0.8	7.6	6.8	57	8.6	841	403
Toll Brothers	Northeast	9%	19%	9%	1.0	9.7	6.7	131	7.1	473	318
US Home	South	14%	29%	14	0.6	5.5	5.1	117	3.3	944	163
Del Webb	Southwest	16%	18%	12%	1.1	11.8	6.9	200	3.5	585	243

*Latest 12 months. Source: Market Guide database via OneSource Information Services.

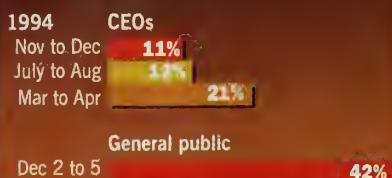
These six home builders are well prepared to weather an expected downturn in home construction—and then cash in on a recovery.

The Forbes/Gallup Poll shows that most business executives hope the Republicans will put their economic agenda ahead of their social agenda.

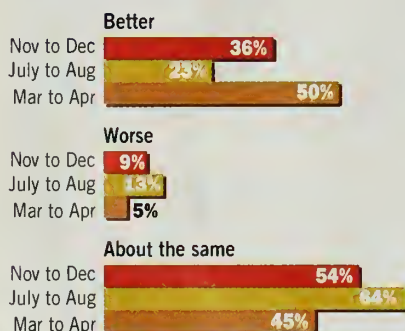
A Christmas list

By Howard Banks

Do you generally approve of the job Bill Clinton is doing as President?



Over the next six months, do you expect the overall U.S. business climate to get better, worse or remain about the same?



For the following, should government spending increase, decrease or stay at the current level?

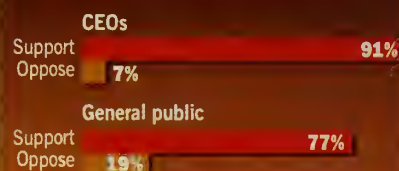


TO SAY that the business community is pleased with the results of the congressional elections is hardly news. But what does business expect from the new Republican-controlled Congress? "We are coming on pretty strong to encourage the Republicans to go after changes that help growth, job creation and capital formation," says Tracy O'Rourke, chairman and chief executive of Varian Associates and chairman of the over-12,500-member National Association of Manufacturers.

"I don't care about school prayer. If [the people] want it, that's okay," says O'Rourke. "But such things should not be served up as number one priority."

On this, O'Rourke's view, and those of other top business people FORBES talked with, mirror the third FORBES/Gallup Poll of Chief Executives. The poll, conducted by the Gallup Organization in telephone interviews with 338 chief executives in late November and early December,

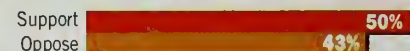
Do you support or oppose a constitutional amendment to give the President a line item veto?



shows overwhelming support (94%) for the proposition that Congress should focus on economic issues, with only 4% favoring political issues.

This reflects a fear on business' part that the Republicans could dissipate momentum in arguments over things like school prayer and miss a chance to help the economy. John W. Snow, chairman and chief executive of CSX of Richmond, Va., says the Republicans should be candid that there are no quick answers to such problems as high school graduates who can't read, or to kids having kids. "These are genera-

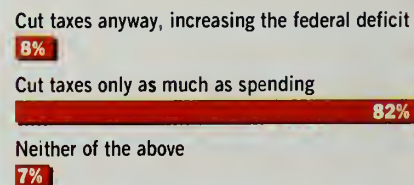
Would you support a value added tax?



Would you support or oppose a flat tax with few deductions?



If Congress cannot agree to cut enough spending to cover proposed tax cuts, what should they do?



Would you support or oppose:

Capital gains tax cut



Income tax cut



Adding child tax credit of \$500



Additional tax incentives for savings



tional problems that will not be solved with instant solutions," says Snow.

No surprise that these business leaders dislike the current Administration. What is striking is how nearly unanimous the disapproval is. In the public at large, a national Gallup poll taken in early December shows that 50% of the public give Clinton a negative rating. Among the business executives polled, 88% were negative on Clinton.

Where else are the executives ahead of or out of step with the general population? The chief executives support a balanced budget amendment (72%) to a noticeably lesser extent than respondents to the national survey (85%). But 91% of chief executives favor giving the President a constitutional amendment granting a line item veto, a budget weapon likely to have teeth, compared with 77% in favor in the national poll.

John L. Clendenin, chairman and chief executive of BellSouth, speaks for a lot of business people who feel that spending cuts are at least as important as tax cuts. "We should concentrate most on the spending side of the equation," he says. The chief executives strongly support (82% versus 8%) the idea that taxes should be cut only by as much as Congress cuts spending.

As for taxes, the bosses, not surprisingly, want changes targeted at capital formation. Some 93% of chief executives want a capital gains tax cut (just 6% oppose), while in the national survey just 58% favored a capital gains tax rate cut, with 30% opposing it.

High on John Snow's personal list is an end to double taxation of dividends, but he concedes: "It won't happen anytime soon."

That chief executives are concerned

lest they be regarded as heartless emerges from the poll attitudes toward the Americans with Disabilities Act; 38% of the executives say they favor this federal gift to the trial lawyers' lobby. Yet tort reform gets the largest majority scored in this survey, with 96% in favor and just 2% against.

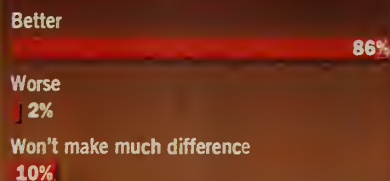
Telephone boss John Clendenin wants priority given to modernizing communications legislation—and makes a strong argument for giving high priority to it, saying: "It's time for the U.S. to catch up with other countries, many of which have a more competitive [telecommunications] environment." He remembers that an attempt to deregulate in the last Congress wilted in a welter of special interest protection.

C. Michael Armstrong, chairman and chief executive of Hughes Aircraft Co., a Republican who was recently made chairman of the President's Export Council, makes the case for pushing free trade. "Following passage of GATT [which 90% of chief executives supported in the poll] we have wonderful momentum," he says. "But we shouldn't think that's adequate."

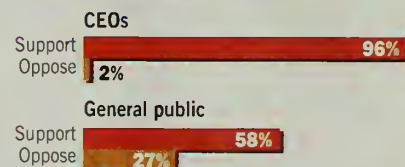
He hopes to get liberalized such items as export licensing and export financing and looks for an end to unilateral export sanctions for foreign policy reasons.

FORBES/Gallup found in the business community almost a too-good-to-be-true reaction to the election results. Railroadman Snow laughs, saying: "I'm a Republican supporter, but you have to remember the old line about being careful about what you set your heart on, because you might get it. The business community could be about to get its heart's desire." ■

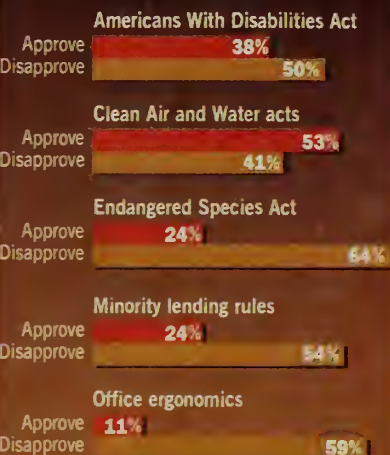
Do you think Republican control of Congress will be better for the country, worse or won't make much difference?



Do you support or oppose tort reform that would limit claims plaintiffs can make against businesses, and require losers to pay court costs?



Do you approve or disapprove of government regulations on:



While the numbers tell you a lot about a company, they don't tell you *all* you need to know. Herewith Forbes editors mix numbers and qualitative judgments to pick 21 rising stars of American industry.

Annual Report on American Industry

By Steve Kichen

Illustrations by Greg Couch

TAKE A QUICK LOOK at the 21 companies in the table on page 124. Chances are that you are familiar with two or three of them, but the rest are lesser-known names.

Sifting through the 1,340 large U.S. companies covered in this, our 47th Annual Report on American Industry, the editors have selected a single company—a rising star—in each of our 21 industry groups. We think these rising stars should in the years ahead outperform the average company. We think many of them are excellent investments. We limited the list to companies whose stocks were not selling at prices that were extremely out of line with the overall market's. The S&P 500 was recently priced at 16 times earnings; companies on this list sport an average P/E of 19.

How do we pick the companies? By a blend of qualitative and quantitative measures.

On the quantitative scale we ranked every company on each of our yardsticks: growth, return on equity, earnings-per-share growth, stock performance. Giving each company a composite score, we eliminated from the running any company whose composite score failed to place it well up in its industry.

On the qualitative scale, we talked with analysts, industry specialists, competitors and the candidate companies themselves. Our editors studied the record and drew upon their own reporting experience.

We wanted to know: Which among the companies that qualified quantitatively had the best prospects for growth and profitability? And which

the best managements?

The companies selected thus were not always those with the top statistical profiles. For example, our editors selected Valspar as the chemical industry's rising star even though it did not have the industry's highest return on equity or sales growth. What it does have is an unbroken 20-year record of rising earnings in fair times and foul. It also has run a shrewd and highly successful acquisitions policy.

In financial services, Matthew Schifrin selected little-known First Tennessee National, a \$10 billion Memphis bank. Again, First Tennessee did not show up with the industry's highest growth rate or the highest return on capital, though it scored well on both counts. Schifrin liked the bank because a full half of its revenues come from fee income and are not at



the mercy of fluctuating interest rates.

Choosing a rising star in the hard-pressed aerospace industry was a bit of a puzzle, since the whole industry is shrinking. We settled on Teleflex Inc., which has the distinction of having delivered 20 years of increasing earnings. Its secret? Finding new uses for blades it makes for jet engines—most recently by making blades for electric-power-generating turbines.

In the Metals category, James Norman selected Acme Metals Inc. as rising star among over 40 metals companies. Although its financial showing has been good, others did better. Norman nominated Acme because he was impressed by the carefully thought-out and extremely bold bet the company has placed on the latest steelmaking technology. If, as now seems likely, the steel industry is making a solid comeback, Acme stands to earn a handsome payback.

We picked Granite Construction in the construction industry because of its willingness to become a partner in private toll road projects—which may

well be the future of the highway industry.

Five of the selected companies have risen from the ranks of small outfits that are selected every fall as the Best Small Companies in America. They are: Nordson, Sensormatic Electronics, Stryker, Teleflex and Valspar. Smart minnows once, these companies are now big fish; we expect many of them to end up swimming with the biggest.

Our retail pick is Viking Office Products, a mail-order distributor of office supplies and equipment. Ten years ago Viking had revenues of only \$15 million; it is now a \$565 million company. Chief Executive Irwin Helford says the trick is providing such good customer service that customers will pay a little extra for it. Thus has Helford been able to avoid deep-discount pricing.

Viking's five-year average return on equity is 21%, stellar compared with 12% and 9% for much bigger rivals Office Depot and Staples, respectively. We also like Viking for its demon-

strated ability to reinvest capital—another strength we look for in selecting rising stars.

The table lists basic information on all 21 rising stars, including comparative return-on-equity figures (five-year average against latest 12 months). For most, the latest-12-month return on equity was above the five-year average, indicating good profit momentum.

A box accompanying each industry survey nominates that industry's rising star and explains why we chose it.

We do not presume to predict that all of these rising stars will outperform the stock markets in the year ahead. There are too many unpredictables, too many economic crosscurrents, and several of the stocks already reflect the quality of their managements in the price of their stocks. What we will predict is this: These 21 companies, as a group, will outperform American Industry over the next couple of years.

Our industry surveys start on page 126.

Rising stars

Industry	Company/chief executive officer	Survey page	Return on equity		Recent price	1995 earnings est	
			5-year average	latest 12 mos		EPS	P/E
Aerospace & defense	Teleflex/Lennox K Black	126	15.2%	13.9%	36%	\$2.73	13.4
Business services & supplies	Sensormatic Electronics/Ronald G Assaf	128	13.9	12.5	35%	1.44	24.6
Capital goods	Nordson/William P Madar	131	25.0	22.1	58¼	3.05	19.1
Chemicals	Valspar/C Angus Wurtele	134	22.9	22.8	34	2.18	15.6
Computers & communications	LDDS Communications/Bernard J Ebberts	138	16.7†	8.9	22%	1.32	17.0
Construction	Granite Construction/David H Watts	142	7.0	11.3	21¼	1.61	13.2
Consumer durables	Modine Manufacturing/Richard T Savage	145	16.1	20.5	30½	2.26	13.5
Consumer nondurables	Nine West Group/Jerome Fisher *	149	NA	36.4	26	2.17	12.0
Electric utilities	CipSCO/Clifford L Greenwalt	154	12.4	13.2	26%	2.42	11.0
Energy	Tidewater/William C O'Malley	158	6.0†	7.9	22%	1.22	18.3
Entertainment & information	Gaylord Entertainment/Earl W Wendell	162	14.0	30.7	24½	1.03	23.4
Financial services	First Tennessee Natl/Ralph Horn	164	16.8	18.6	44%	5.03	8.9
Food distributors	Hannaford Bros/Hugh G Farrington	170	16.9	15.1	247%	1.71	14.5
Food, drink & tobacco	Lancaster Colony/John B Gerlach Sr	174	24.8	28.4	34¼	2.28	15.0
Forest products & packaging	Chesapeake/J Carter Fox	178	4.8	8.3	31½	2.58	12.2
Health	Stryker/John W Brown	180	24.4	24.0	36%	1.77	20.7
Insurance	American Bankers/R Kirk Landon	184	16.6	13.2	20½	3.04	6.7
Metals	Acme Metals/Brian Marsden	188	2.8	15.7	16½	2.46	6.7
Retailing	Viking Office Prods/Irwin Helford	190	21.4	25.6	30%	1.00	30.8
Transport	Landstar System/Jeffrey C Crowe	194	NA	27.5	32¼	2.13	15.1
Travel	Carnival/Micky Arison	196	20.4	22.2	21¼	1.63	13.3

*Vincent Camuto is co-chief executive officer. †Three-year average. NA: Not available.

Mixing the qualitative and the quantitative, Forbes editors have selected 21 mostly smaller companies that we think will shine in their respective industries.

How we calculate the results

Profitability				Growth				Sales	Net income	Profit margin
Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			

Profitability

We calculate return on equity by taking primary earnings per share and dividing them by common shareholders' equity per share at the start of the fiscal year. In calculating common equity, we assume that all convertible preferred stock is converted into common. The liquidation value of nonconvertible preferred shares is subtracted from total stockholders' equity. Net income and earnings per share include gains or losses from discontinued operations but exclude extraordinary items like tax-loss carryforwards.

Five-year average return on equity is calculated with a modified version of the sum-of-the-years digits method. This emphasizes recent results. If a firm lost money during any fiscal year but started that year with positive equity, we calculated the percentage lost on equity and factored this result into our equation for that year. Companies were penalized for the years in which they had negative equity. If a company shows a return on equity exceeding 100% in a given year, this value is automatically scaled back to 100%, in order to knock out outrageous and unreasonable returns.

For return on capital, we divide a firm's total capitalization into the sum of three items—aftertax profits, the amount remaining if the interest paid on long-term debt was taxed, and minority interest. Most companies (except for electric utilities) don't report interest expense on long-term debt. In such cases we estimate this expense for the latest 12 months. We assume a 34% corporate tax rate to compute the tax break derived from interest expense. We define total capitalization as long-term debt, common and preferred equity, deferred taxes, investment tax credits and minority interest in consolidated subsidiaries.

Growth rates

We use a modified version of the least-squares method to calculate sales and earnings growth rates. This equation adjusts for sharp fluctuations and yields a result that closely reflects the average rate of growth. Example: During a four-year period a corporation's earnings go from 50 cents to 75 cents, then to \$1 and finally to \$1.15 in the last year. That's a 50% jump from the first year to the second, a 33% increase in the third and a 15% increase between the third and fourth year. Least-squares says that on average, earnings grew at a compound annual rate of 32.1%. The regression formula calculates the slope of a line that best fits the data points for four years. If you do the math yourself—starting with 50 cents—you'll get \$1.15 in the fourth year.

There's one limitation to the least-squares method. It can't handle negative values. If earnings are negative at the beginning of the period, we calculate the growth rate for a

shorter period, starting with the first positive year. If a company lost money during the middle of a measuring period, FORBES dropped the year from the calculation and measured the growth rate over the remaining positive periods. Our assumption: A single loss is not representative of long-term performance. If a company lost money in more than one year, however, the five-year earnings growth rate is not calculated and the result is listed as not meaningful (NM).

Our computer checked all least-squares growth rates with a comparison method to see if the earnings pattern made sense. Here's an extreme case showing why we check: If a company's per-share earnings plunge from \$1 in the first year to 15 cents in the second, then jump to \$4 in the third and dive again to 15 cents in the fourth year, the formula says the annual growth rate is -21.4%. This does a terrible job of describing year-to-year changes, so we marked such wildly fluctuating patterns also as not meaningful (NM).

Time periods

The five-year growth rates we use require six years' worth of data. These rates are based on latest fiscal year-end results. All growth rates covering a period of less than five years are footnoted. When the range of available data is less than four years, we marked it as not available (NA).

Latest-12-month comparisons are between the most recent four quarters for which financial results have been announced and the comparable quarters in the previous period. Sales, net income figures and profit margins are measured over the latest 12 months. Debt as a percentage of total capital is based on the most recent balance sheet.

Definitions

FORBES defines sales as net sales plus other operating revenue. For banks, sales are total interest income plus other operating income. Sales for insurance companies include premium income plus net investment and other income. Debt as a percentage of capital is long-term debt, including capitalized leases, divided by total capitalization as defined above.

Medians are calculated by listing the companies in rank order and selecting the value of the middle company. If there is an even number of firms, we average the data on the two middle companies. All companies, including those with negative values, are ranked in calculating the industry median, except for those marked NA. The all-industry median is the median for all ranked firms in this survey other than biotechnology companies, which are not counted because they are much smaller than the other survey companies and most are not yet profitable. ■



Aerospace & defense

Drastic cost-cutting and diversification are helping to prop up aerospace profits, but the basic business is still in trouble, and many more jobs will be lost.

By Howard Banks

If all you look at is profits, the aerospace industry looks pretty healthy. Last year the industry earned a record \$5.2 billion, up from a \$1.8 billion loss in 1993 (largely caused by restructuring costs). Companies like Loral, with a 37% profit increase, and Sundstrand, with a 51% gain, lead the rebound. The industry's median return on equity, at 11.3%, puts it only slightly behind the all-industry median.

But mark this: Most of the gains came from draconian cost-cutting efforts implemented to offset slumping sales. Overall aerospace sales fell 10% last year on the heels of a 6% decline the year before. All aerospace market segments suffered more or less equally. The decline is expected to

continue in 1995, at maybe a 3% to 4% pace.

Aerospace employment dropped from 900,000 in 1993 to 836,000 in 1994. The Aerospace Industries Association thinks the total could drop to 650,000 by 1998. This would mean that over half of all the aerospace jobs that existed a decade ago would have disappeared.

While the military market was hurt the most, the civilian market was also a disappointment. Until November, Boeing and archrival Airbus Industrie ran neck-and-neck in unit sales, when Boeing got a \$700 million order for 16 of its 737-800s from Germany's Hapag-Lloyd. GE's CFM-56 family of jet engines (a joint venture with Snecma of

"It's an ego thing"

Compared with most of the companies in its industry—and in FORBES' annual survey on corporate profitability—Teleflex Inc. is a rather small player. Sales for 1994 will come in at only \$800 million or so, profits at around \$40 million.

But when it comes to returns to stockholders—as measured by a combination of profitability, stock performance and growth—the company moves to the top of the class. Last year was its twentieth straight year of increased earnings per share, to at least \$2.30, up from \$1.95 in 1993. And 1995 should see further big leaps, with earnings at about \$2.70 a share, and sales “comfortably at \$900 million,” says Teleflex Chairman Lennox (Bim) Black, 64.

Headquartered in Plymouth Meeting, Pa., Teleflex is a minicon-



Lennox (Bim) Black, soon-to-retire head of Teleflex, in a thicket of turbine blades. **As business in other sectors ebbs, he expects aerospace to pick up again.**

glomerate that makes aerospace turbine blades, mechanical controls for automobiles and boats, and medical devices. For the past couple of years or so, aerospace and defense sales have been depressed. So it has been the auto and medical device sectors that have sustained Teleflex's growth. But Black expects those roles to reverse sometime in 1996 or early 1997, when he sees aerospace picking up again. “All of these markets ebb and flow,” he says.

Black has been using the ebb period in aerospace to regroup and retrain. Lessons learned in the auto sector (faster response time, fewer managers) are being applied at Teleflex's \$200 million (revenues) aerospace division. At the same time, Teleflex is injecting its jet engine blade technology into Maltool, a unit acquired in early 1993 that makes blades used in electricity-generating turbines. “The utilities are going to be a great growth business for

ten years,” says Black.

He lost little time in making Maltool pay its way: Soon after the acquisition, he shut down 5 of Maltool's 11 plants in North America. Each was identical to the others, says Black. The surviving Maltool plants will work closely with another unit that makes blade coatings. Black: “Package deals make it harder for our competitors.”

Black will hand over as chief executive this spring, after 24 years at the helm. It will be a well-oiled transition: His successor, David Boyer, 52, has been with the company almost as long as Black has.

Black hopes that Teleflex will be a \$1 billion company by 1996. (“It's an ego thing,” he laughs.) That would take at least one more acquisition, which he is not ruling out. With a modest \$191 million in long-term debt and stock selling at 17 times earnings and twice book value, Teleflex can easily afford to buy. —H.B.

France) gained more market share, at the expense of United Technologies' Pratt & Whitney and Rolls-Royce.

With conditions difficult, more than 30 mergers were announced last year. They ranged from the multibillion-dollar deal between Lockheed and Martin Marietta (the Defense Department said okay in December, but it still has to pass antitrust scrutiny) to Goodrich's \$300 million buy of Emerson Electric's aircraft parts unit. The list also includes a transatlantic merger: Rolls-Royce plans to buy Allison Gas Turbines.

Companies doing the best are the ones that have been able to add offsetting sales growth in areas outside aerospace. Among them: Loral, E-Systems and Teleflex (*see*

box, opposite). If the past is any guide, diversification will pay off far more for companies that do it through acquisition. Example: Rockwell's successful buy of automation and control system maker Allen-Bradley Co., versus Boeing's failure in the early 1970s trying to fill then underused factories by making hydrofoil craft.

A big uncertainty in 1995 will be the Republicans' impact on defense and space spending. They want to spend more and, all of a sudden, so does President Clinton. One program set to get a boost is antiballistic missiles, but NASA will be squeezed. The Defense Department's spending cut of \$7.7 billion over six years has hit the Comanche helicopter built by UT's Sikorsky unit. ■

Aerospace & defense	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
General Dynamics	31.6	20.4	18.5	13.3	-22.3	-6.3	NM	-75.6	3,113	244	7.8
Litton Industries	28.3*	8.8	7.4	7.9	-0.7	-0.8	-12.6	-47.6	3,446	51	1.5
General Electric	21.5	21.1	12.7	55.3	3.2	10.1	9.4	8.1	64,618	5,435	8.4
Martin Marietta	21.1	23.7	15.7	29.2	7.6	33.5	6.9	46.0	10,275	615	6.0
Sundstrand	20.3	27.6	22.5	32.3	NM	-6.5	NM	50.5	1,371	145	10.6
Raytheon	19.9	13.5	13.4	0.5	1.9	7.9	6.5	-14.2	9,800	577	5.9
Boeing	18.5	10.9	9.1	21.0	9.8	-17.7	19.6	-23.0	22,460	1,003	4.5
GenCorp	18.1	12.1	6.5	94.0	NM	-6.7	-24.0	-14.3	1,773	29	1.6
Rockwell Intl	18.0	21.6	17.2	19.8	-3.0	2.6	NM	12.5	11,123	634	5.7
Thiokol	16.4	14.6	12.3	18.0	-1.3	-12.5	22.8	-1.3	1,024	61	5.9
E-Systems	16.2	12.5	12.6	1.0	8.1	-6.1	8.5	-19.3	1,999	98	4.9
Loral	16.0	18.8	10.2	53.7	30.3	39.2	9.5	36.7	5,013	262	5.2
AlliedSignal	15.8	30.5	18.7	33.7	NM	4.4	6.9	17.9	12,342	732	5.9
Teleflex	15.2	13.9	9.8	39.4	15.7	21.1	5.3	14.6	771	38	5.0
McDonnell Douglas	13.2	8.8	7.1	37.3	NM	-14.3	31.6	-77.0	13,278	301	2.3
Northrop Grumman	13.1	9.0	10.2	52.2	-1.3	14.4	-27.6†	-38.1	6,087	121	2.0
Alliant Techsystems	13.0*	8.8	7.2	9.6	-10.3	-7.9	NM	D-P	775	9	1.1
Lockheed	12.7	15.4	10.6	38.9	3.2	6.3	-8.4	6.9	13,025	443	3.4
Teledyne	12.5	def	2.7	58.2	-6.7	-7.6	-20.8	P-D	2,380	-9	def
Textron	12.1	15.0	7.4	75.5	4.2	10.5	6.4	14.4	9,733	424	4.4
Precision Castparts	10.7	12.2	11.4	2.8	NM	-1.0	4.3	500.0+	424	27	6.4
Oshkosh Truck	6.6	11.6	8.8	8.2	11.6	8.9	120.4†	154.2	692	13	1.9
UNC	6.4	def	def	60.2	NM	43.8	30.8†	P-D	546	-49	def
Fairchild	4.4	49.3	10.9	75.8	-3.3	-0.2	NM	D-P	455	32	7.0
United Technologies	2.8	13.8	11.9	22.0	2.9	-0.8	NM	D-P	20,754	608	2.9
GM Hughes Electronics	1.8	3.4	14.4	4.4	3.6	7.3	NM	25.0	14,111	1,100	7.8
Kaman	1.1	6.6	8.4	14.1	NM	1.0	NM	D-P	803	19	2.3
Rohr	0.5	3.8	5.5	79.6	NM	-21.9	NM	D-P	918	7	0.8
ESCO Electronics	def	4.5	5.0	12.3	-5.1	3.1	NM	53.2	474	8	1.8
Sequa	def	def	1.5	49.8	NM	-12.8	NM	D-D	1,493	-22	def
SPS Technologies	def	def	def	42.8	-6.8	2.5	NM	D-D	330	-26	def
Avondale Industries	def	def	12.2	28.1	-4.1	-7.8	NM	D-D	452	-4	def
Hexcel	def	def	def	102.5	-2.8	-8.5	NM	D-D	317	-57	def
Talley Industries	def	def	4.4	84.5	-3.8	-1.4	NM	D-D	316	-2	def
Coltec Industries	NE	NE	36.2	223.1	-2.9	0.0	-14.6	36.1	1,331	91	6.9
Abex	NA	NE	21.8	147.5	-13.0	-31.1	NA	D-P	361	15	4.1
Aviall	NA	NA	3.5	47.7	-2.0	-12.8	NA	NA	850	10	1.1
Industry medians	12.7	11.3	10.2	37.3	-3.0	-0.8	-20.8	10.3	1,493	51	3.4
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.



Business services & supplies

To make themselves meaner and leaner, U.S. companies keep jobbing out chores to specialists. This is one trend that will only grow in importance.

By Kate Bohner Lewis

In the campaign to become more efficient, U.S. companies are farming out an ever greater variety of tasks that were once done in-house. Stephen McClellan, a business services and supplies analyst at Merrill Lynch in San Francisco, estimates outsourcing contracts increased by

about 40% last year, up from a 23% increase the year before. "This trend has altered the way people do business in this country," says McClellan. "Companies are pouring money into this industry."

For the 69 business services and supplies firms surveyed

To catch a thief

Based in Deerfield Beach, Fla., Sensormatic Electronics Corp. is the leading manufacturer of the anti-theft sensors that are now attached to clothing, perfume, compact discs and even newborn babies. "Security and surveillance are the wave of the future," says Ronald Assaf, Sensormatic's 59-year-old chief executive. "We have and will be able to penetrate an unlimited number of markets."

This past summer Sensormatic won the contract to supply security systems at the 1996 Olympic Games in Atlanta. Assaf hopes this will add at least \$50 million to sales over the next two years. (In the fiscal year ended this June, Sensormatic earned \$72 million, or \$1.16 per share, on sales of \$656 million.)

Another coup: About a year ago Sensormatic signed a \$20-million-a-year contract with Home Depot for all of its 324 stores. This will add more than \$2 million to annual earnings.

Analysts say that the Home Depot and Olym-

pics contracts are to thank for sending Sensormatic's share price to 37, up from 25 a year ago. Its shares now sell for 22 times Wall Street's consensus earnings estimate for 1995.

Is there enough growth in store to justify that multiple? Assaf insists there is. His big push right now is in so-called source-tagging, where a disposable antitheft adhesive label is applied as part of a product's manufacturing process, rather than by the retailer. "The gold ring in this industry is convincing retailers to change over to source-tagging," says Jeffrey Kessler, a senior equity analyst at Lehman Brothers. Already the market for disposable antitheft tags is growing at more than 30% annually.

Assaf is also working to expand the company's commercial and industrial segment. Sensormatic now provides closed circuit and access-control security systems to Forbes 500s corporations like General Motors, Boeing, Ford and AT&T. This segment contributed \$35 million to sales in 1992 and is expected to contribute almost \$200 million in 1995.

High crime rates are no



Sensormatic Chief Executive Ronald Assaf
"Surveillance is the wave of the future."

longer purely an American phenomenon. To expand its overseas business, in December Sensormatic acquired Hauppauge, N.Y.-based Knogo Corp.'s theft-prevention business outside the U.S., Canada and Puerto Rico in a \$103 million stock swap. This deal is expected to add more than \$60 million in

sales in 1995. Sensormatic also recently established a subsidiary in Hungary and plans to be in the Czech Republic, Estonia and Latvia by late spring.

Says Assaf, half with a sigh and half with a broad smile: "I don't see [the anticrime] business slowing down any time soon."

—K.B.L.

in this issue, the median company shows five-year average sales growth of 6.8%. That's well above the 5.5% median for all the companies in our survey. Profitability is strong, too: a five-year median return on equity of 11.9% for the business services/supplies industry, as against an all-industry median of 11.4%.

The banking industry is sending more work—particularly data processing of credit card transactions—to outside business services firms. Credit card transaction volume rose more than 20% last year, and the trend is likely to continue. Among the latest beneficiaries: First Data Corp., with a 12-month revenue gain of 12%, and First Financial Management, with a 26% gain.

Another trend benefiting the business services industry is the growth of small businesses—almost 422,600 new

incorporations by last August alone, according to Dun & Bradstreet. Business from some of these newcomers helped payroll-processing specialist Automatic Data Processing post a 15% earnings gain over the last 12 months. Merrill Lynch's McClellan predicts another good year in 1995 for ADP. Increasingly the firm collects its clients' payroll taxes and then pays the money to the tax collectors one or two days later, earning interest on the float. With short-term interest rates rising in 1994, close to a third of ADP's profits were accounted for by interest earned on withheld payroll tax.

A pickup in spending on sophisticated office equipment in the U.S. and overseas helped lift earnings for companies in the office supplies segment. Diebold, Inc. and Pitney Bowes significantly expanded their opera-

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Business services											
Gtech Holdings	39.9*	22.6	12.4	53.5	35.6	22.6	NM	8.0	692	53	7.6
Rollins	35.9	30.2	28.1	0.0	8.8	6.2	13.6	12.7	600	49	8.1
H&R Block	29.0	28.5	28.6	0.0	8.5	-2.6	14.3	10.5	1,322	203	15.3
General Motors EDS	25.3	21.8	17.1	15.5	13.2	12.3	13.8	12.3	9,352	788	8.4
First Data	22.9	20.4	15.2	33.2	24.8	11.9	18.0	20.4	1,601	197	12.3
Automatic Data	22.6	21.6	17.8	17.8	8.3	11.4	13.3	14.6	2,539	344	13.6
Govt Technology Svcs	21.6	14.2	14.5	0.4	18.7	49.7	NM	26.3	651	10	1.5
Equifax	21.3	46.9	26.3	40.4	10.1	13.7	4.7	96.2	1,352	113	8.3
Pinkerton's	15.1	3.1	4.1	27.1	4.1	17.2	-23.9*	-57.1	849	3	0.4
Shared Medical Sys	15.0	17.1	15.3	2.4	6.0	8.8	5.4	14.6	533	34	6.5
Kelly Services	14.7	14.6	14.7	0.0	8.3	16.0	-10.7	28.0	2,235	57	2.5
ABM Industries	13.2	12.7	11.2	15.4	6.0	13.0	9.1	11.2	857	15	1.7
Computer Sciences	13.1	12.0	9.8	26.5	15.7	15.7	8.5	19.5	2,879	99	3.5
PHH	13.0	13.5	6.3	74.0	3.4	3.2	5.8	11.9	2,112	66	3.1
Wackenhut	11.4	9.6	7.2	50.5	10.7	10.0	-17.1	500.0+	726	5	0.6
Safeguard Scientifics	10.5	10.9	9.3	61.0	32.3	33.2	-10.3	22.4	1,387	11	0.8
First Financial Mgmt	10.3	11.6	11.4	0.5	27.4	25.6	NM	231.5	2,010	150	7.5
Adia Services	8.4	12.5	12.5	0.3	10.8	27.5	NM	50.3	1,123	27	2.5
Norrell	6.3†	33.5	24.9	38.9	9.1*	NA	NM	NA	655	13	2.0
AAR	4.8	4.8	4.5	34.2	-1.5	6.2	-20.1	D-P	407	9	2.2
Olsten	4.7	19.9	14.1	28.0	20.4	4.2	NM	D-P	2,225	62	2.8
Ceridian	1.8	def	5.2	8.0	-19.2	2.8	NM	P-D	909	4	0.4
Volt Info Sciences	def	7.4	7.1	27.3	2.9	16.0	NM	D-P	632	6	0.9
Manpower	def	61.2	29.5	39.6	4.9	23.1	NM	D-P	3,867	61	1.6
Rouge Steel	NA	47.2	51.4	0.0	NM	NA	NA	NA	1,217	90	7.4
Medians	13.1	14.6	14.1	26.5	8.8	13.0	-13.9	20.4	1,217	53	2.8
Business supplies											
HON Industries	26.1	27.8	22.5	16.8	6.8	9.9	8.6	43.2	829	53	6.4
Deluxe	23.9	18.8	16.6	11.6	5.6	10.1	3.1	3.4	1,710	152	8.9
John H Harland	20.2	27.7	17.6	35.7	9.0	2.0	1.9	3.1	517	51	9.9
Minn Mining & Mfg	18.8	18.5	17.2	6.4	5.5	5.7	1.7	3.4	14,706	1,276	8.7
Pitney Bowes	18.4	21.4	14.4	27.0	6.0	-4.4	11.2	20.0	3,344	401	12.0
Reynolds & Reynolds	18.4	24.6	17.9	31.7	5.9	16.0	22.1	25.8	809	66	8.2
Standex International	18.2	26.9	15.1	46.0	3.4	7.1	12.1	40.0	543	33	6.0
Amer Business Prods	14.8	14.1	10.6	37.6	6.4	17.5	7.4	9.1	552	18	3.3
Chemed	14.5	12.6	11.3	24.5	-4.1	24.6	NM	33.3	617	23	3.7
Sensomatic Electron	13.9	12.5	10.9	17.5	34.6	37.7	24.1	19.5	704	77	11.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

tions in Europe last year; as a result, earnings rose 26% and 20%, respectively. Xerox has some hot new products, particularly a new scanner that digitizes information at a rate of 20 pages a minute, and DocuSP, a software architecture that prepares information from all types of operating systems for printing. Even if the economy slows down, Xerox and other office equipment companies that offer laborsaving products should

continue their success streak.

Waste management companies should also have another good year. Latest 12-month earnings rose 32% at Browning-Ferris and 58% at WMX Technologies. Prudential Securities analyst Vishnu Swarup recommends both companies for the year ahead because the demand for solid waste resources is up and states are implementing tougher regulations on landfills.

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Wallace Computer Svcs	12.6	12.8	11.4	5.2	6.7	7.9	2.9	15.8	588	47	8.0
Anacomp	11.6	11.5	9.5	84.8	-2.2	0.4	NM	-54.5	593	7	1.2
Standard Register	11.3	12.3	11.5	3.5	0.8	5.7	NM	8.4	757	44	5.9
Diebold	10.3	14.2	14.8	0.0	6.3	21.3	8.0	25.8	729	61	8.3
Herman Miller	8.3	13.8	13.1	6.4	2.3	12.2	NM	50.0	984	41	4.2
Interface	8.1	7.3	6.0	55.0	6.7	16.8	-14.1	17.9	700	16	2.3
Avery Dennison	8.0	13.0	10.4	27.5	2.3	6.4	-7.6	26.1	2,762	100	3.6
Comdisco	7.9	6.9	5.2	59.8	4.2	-2.6	-15.5	-21.1	2,098	53	2.5
United Stationers	7.2	6.6	5.6	35.8	10.2	0.2	-5.8	-26.1	1,473	16	1.1
Alco Standard	7.0	5.5	5.6	41.3	13.8	24.2	-21.1	D-P	7,996	71	0.9
Mine Safety Appliances	6.2	5.5	5.1	6.6	2.9	3.8	-17.3	91.9	452	14	3.2
Canon	5.9	2.9	2.9	37.4	11.0	-4.1	-9.9	-42.8	18,660	214	1.2
Xerox	def	def	3.7	57.2	1.2	-8.5	NM	D-D	16,916	-94	def
Nashua	def	def	def	30.2	-8.2	-15.2	NM	P-D	488	-28	def
Moore Corp	def	def	def	6.6	-2.5	1.4	NM	P-D	2,372	-61	def
AM International	NA	NA	1.0	38.3	-12.2	-8.2	NA	NA	491	1	0.1
Fisher Scientific	NA	18.9	13.0	39.1	7.0	14.1	NA	13.2	1,067	35	3.3
Pittway	NA	14.4	12.2	1.5	9.2	18.4	NM	120.4	742	42	5.7
Medians	11.3	12.8	11.1	28.8	5.8	6.7	-8.7	15.8	783	43	3.7
Industrial services											
Cintas	19.5	19.2	14.7	19.9	16.8	15.5	15.9	19.2	543	55	10.2
Harsco	16.8	14.2	10.2	40.0	3.4	-1.2	38.6	-16.3	1,412	75	5.3
WW Grainger	16.3	17.7	17.3	0.6	11.2	13.8	7.2	18.8	2,917	168	5.8
Ogden	12.2	14.2	5.9	71.8	11.8	4.9	NM	14.5	2,078	69	3.3
Ecolab	5.0	22.5	18.6	22.2	-5.4	7.3	NM	14.1	1,113	85	7.6
CDI	5.0	15.1	10.9	34.1	2.4	15.3	-23.5	196.7	1,040	17	1.7
Safety-Kleen	2.2	def	def	38.3	15.1	-2.5	NM	P-D	785	-93	def
Figgie Intl	def	def	def	59.9	-7.3	-15.0	NM	D-D	752	-225	def
Borg-Warner Security	NA	84.4	10.0	92.4	9.5	4.2	NA	D-P	1,804	23	1.3
Medians	8.6	15.1	10.2	38.3	9.5	4.9	NM	14.5	1,113	55	3.3
Environmental & waste											
WMX Technologies	17.6	17.7	8.7	48.3	21.9	9.8	NM	57.7	9,826	742	7.6
Browning-Ferris Inds	12.8	17.2	12.5	34.9	9.4	23.5	47.6†	32.2	4,315	284	6.6
Thermo Electron	12.8	11.1	7.9	48.4	19.3	23.8	18.2	15.8	1,490	97	6.5
Zurn Industries	4.8	0.2	0.4	4.5	7.6	-40.5	NM	-93.5	508	0	0.1
Intl Technology	def	def	def	32.5	8.5	-1.9	NM	D-D	401	-8	def
Air & Water Tech	def	def	def	67.9	6.4	-17.2	NM	D-D	565	-222	def
ICF Kaiser Intl	def	def	def	71.2	15.2	36.4	NM	D-D	796	-14	def
Medians	4.8	0.2	0.4	48.3	9.4	9.8	NM	-93.5	796	0	0.1
Industry medians	11.9	14.0	11.2	30.2	6.8	9.9	-15.5	15.8	984	47	3.3
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.
 *Four-year average. †Three-year average. For further explanation, see page 125.
 Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.

Capital goods

The combination of weak prices and rising raw materials costs failed to slash the capital goods makers' profitability last year. But this year?

By Marcia Berss

"We're nervous," says Frederick Stratton, chairman of Briggs & Stratton, the \$1.3 billion (sales) leader in small gas engines and auto locks. "We don't know if this is the peak of the cycle, or a midpoint in the intermediate trend. We think it's the midpoint." But Stratton acknowledges he could be wrong and says his company, like many capital goods firms, won't be adding new capacity anytime soon.

Why the caution? The machine tool industry reported

its highest bookings since 1980 in the third quarter of 1994, and backlogs remain high.

The problem is pricing. Many companies operate well below full capacity and can't raise prices. "We can't get big price increases," reports William Jordan, president of Duriron Co., which sells to the chemical industry. (With only \$314 million in sales, Duriron is too small to be listed on the tables below.) Echoing Jordan, Parker Hannifin Chief Executive Duane Collins says his sales

Capital goods	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Electrical equipment											
Premier Industrial	26.5	23.8	22.6	1.4	4.0	8.3	7.2	9.6	760	98	12.8
General Electric	21.5	21.1	12.7	55.3	3.2	10.1	9.4	8.1	64,618	5,435	8.4
Honeywell	21.4	16.2	13.8	22.3	NM	-1.8	-4.2*	23.0	5,939	287	4.8
Emerson Electric	20.0	20.2	17.8	7.1	3.6	5.3	5.6	11.7	8,607	789	9.2
Mark IV Industries	17.2	16.8	9.6	59.0	11.9	12.2	NM	18.8	1,361	58	4.3
Hubbell	16.6	12.7	12.8	0.5	6.0	15.4	NM	-25.1	948	72	7.6
Andrew	14.6	19.5	17.6	16.6	10.9	29.6	24.4	56.4	558	44	8.0
Thomas & Betts	13.1	13.2	8.8	36.2	17.4	7.1	-3.7	10.1	1,136	65	5.7
National Service	10.8	11.8	10.2	3.2	3.8	4.3	NM	9.9	1,882	83	4.4
Valmont Industries	8.6	6.3	6.6	22.0	NM	4.1	-10.5	-61.3	452	7	1.6
Genlyte Group	5.8	8.8	7.2	62.8	-3.9	-1.4	-27.6	D-P	426	5	1.3
MagneTek	3.5	def	def	77.8	5.8	-22.6	NM	P-D	1,128	-41	def
Westinghouse	def	def	def	53.2	-7.4	-0.8	NM	D-D	8,721	-294	def
Imo Industries	def	NE	def	103.3	NM	-32.3	NM	D-D	500	-240	def
Willcox & Gibbs	NA	9.0	7.0	47.9	7.8	85.9	NM	D-P	929	9	1.0
Medians	13.9	12.7	9.6	36.2	3.8	5.3	-27.6	9.9	1,128	58	4.4
Heavy equipment											
Federal Signal	21.5	22.2	19.6	8.7	8.3	15.4	15.4	17.3	632	44	7.0
Stewart & Stevenson	18.6	17.4	14.9	14.8	14.0	15.6	16.5	23.4	1,050	62	5.9
Caterpillar	12.6	37.5	17.5	58.2	NM	21.3	NM	54.1	13,568	824	6.1
Trinity Industries	11.1	12.7	11.0	29.7	9.9	22.6	NM	13.4	2,019	74	3.7
Ingersoll-Rand	10.8	14.9	11.6	16.5	4.9	8.3	-4.5	56.6	4,356	201	4.6
McDermott Intl	9.5	3.7	5.0	41.5	5.4	-0.9	NM	-82.7	3,063	27	0.9
Tenneco	8.5	25.8	10.2	48.6	-0.7	1.9	NM	D-P	13,447	570	4.2
Nacco Industries	7.4	13.9	7.9	63.7	16.6	15.6	-24.1	134.6	1,746	33	1.9
Deere & Co	5.5	26.4	14.2	44.6	2.5	16.2	-26.0	500.0+	8,689	544	6.3
Harnischfeger Inds	4.7	3.5	3.6	29.5	-6.8	-7.7	-16.5	D-P	1,140	18	1.6
Clark Equipment	1.5	46.8	29.5	29.8	-10.1	8.4	NM	500.0+	917	140	15.3
Indresco	0.8	11.1	10.9	0.0	-10.7	-11.7	-18.8	D-P	469	31	6.7
Terex	def	NE	0.2	125.1	11.5	-12.7	NM	D-D	724	-16	def
AGCO	NA	42.9	23.5	61.9	18.0	107.5	NA	203.2	1,058	76	7.2
Case	NA	NA	NA	50.3	-9.0*	19.9	NA	NA	4,143	86	2.1
Medians	8.5	16.2	11.3	41.5	4.9	15.4	-26.0	95.6	1,746	74	4.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

increase last year was due more to new orders than to price increases.

Weak pricing creates anxiety because raw materials costs are rising. Tecumseh Products is a big user of commodities like aluminum; prices for these inputs rose sharply in 1994.

Given weak prices and rising raw materials costs, margins held up remarkably well last year. Many outfits can absorb suppliers' price hikes, thanks to strong productivity improvements in recent years.

Will the companies be able to repeat 1994's performance in 1995? There are reasons for optimism. The weak dollar helps international companies boost overseas

sales, particularly in Asia.

There are victories on the labor front, too. Caterpillar's strike by the United Auto Workers hasn't cut into earnings. Briggs & Stratton is shifting jobs from unionized plants in the North and will open three nonunion plants in the South, where productivity is higher.

Likely winners in 1995 will be companies supplying the strong auto market and the diversifying aerospace business. These companies include Honeywell and General Electric. But watch out for firms that sell to weak industries like oil and residential construction—respectively, McDermott International and Giddings & Lewis are good examples.

Capital goods	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Other industrial equipment											
BWIP Holding	27.5*	def	1.2	35.4	9.3	2.7	NM	P-D	432	-1	def
Nordson	25.0	22.1	20.7	7.8	13.8	7.7	6.3	15.2	488	45	9.2
Briggs & Stratton	21.8	28.2	23.0	15.2	7.1	12.7	32.1*	36.8	1,315	107	8.2
EG&G	20.0	1.3	1.4	0.3	15.1	-40.5	5.6	-92.4	1,633	7	0.4
Dover	18.2	21.7	17.3	20.5	4.1	22.7	2.5	25.9	2,927	189	6.5
Illinois Tool Works	16.8	20.0	15.4	15.2	9.8	8.4	5.6	25.4	3,333	252	7.6
Donaldson	16.8	17.6	17.1	4.0	8.2	11.8	15.3	17.9	615	34	5.5
Keystone Intl	16.1	12.3	11.0	18.7	9.5	1.3	NM	-15.2	522	33	6.4
Crane	15.2	16.6	15.1	53.1	-1.2	17.6	-5.9	-8.5	1,534	49	3.2
Danaher	13.4	19.7	16.1	23.6	8.0	16.3	NM	58.5	1,212	73	6.1
Watts Industries	13.3	12.0	10.1	20.5	18.0	11.1	5.6	35.7	541	42	7.7
Giddings & Lewis	13.2*	8.0	8.0	0.0	28.7	-3.6	25.1	-22.7	553	35	6.3
York International	13.1*	18.9	15.0	39.8	10.8	18.1	125.8†	17.3	2,332	86	3.7
Tyco International	12.6	13.0	10.4	27.4	11.1	6.6	NM	70.3	3,300	130	3.9
Ametek	12.2	6.9	4.7	73.2	7.7	6.8	NM	-54.4	791	7	0.9
Goulds Pumps	11.9	10.8	9.9	15.2	3.8	3.1	-11.6†	2.1	573	20	3.5
Pentair	11.9	12.7	9.9	48.4	7.6	18.3	NM	3.8	1,548	51	3.3
Cooper Industries	11.7	def	1.2	32.9	7.3	-21.6	4.1	P-D	4,947	-3	def
Stanley Works	11.2	11.5	9.7	23.1	3.5	5.7	-4.3	8.0	2,425	110	4.5
Commercial Intertech	8.7	17.3	13.0	23.1	1.9	4.6	NM	78.1	483	25	5.2
Tecumseh Products	8.6	16.4	16.3	1.3	NM	14.3	NM	66.1	1,468	113	7.7
General Signal	8.5	15.4	13.0	29.9	-3.5	8.7	NM	297.7	1,645	82	5.0
Kennametal	6.7	14.0	11.9	21.1	7.9	35.2	-20.2	D-P	846	40	4.7
Parker Hannifin	6.5	8.1	7.8	18.8	NM	7.7	-13.4	21.6	2,681	80	3.0
Bearings	5.6	9.2	7.7	33.8	8.1	13.1	NM	31.3	961	13	1.4
Applied Power	5.2	18.3	11.0	35.4	5.9	20.3	-16.0	396.0	434	17	3.8
Blount	4.6	16.9	12.2	32.6	-11.4	-9.0	NM	205.4	536	29	5.4
Amphenol	0.3	19.0	9.8	47.1	5.8	16.6	NM	128.6	659	37	5.6
Timken	def	1.8	2.3	20.4	1.9	11.9	NM	0.0	1,866	13	0.7
Great American Mgmt	def	def	def	65.6	-3.9	NA	NM	NA	955	-78	def
Trinova	def	20.2	12.8	43.8	-3.7	4.0	-29.4	328.6	1,740	52	3.0
SKF Group	def	def	1.5	48.7	5.0	9.6	NM	D-D	3,971	-23	def
Lincoln Electric	def	def	def	50.7	7.8	1.9	NM	D-D	864	-24	def
Cincinnati Milacron	def	def	def	51.4	NM	17.9	NM	P-D	1,149	-23	def
Eagle-Picher Inds	NE	NE	def	NE	-4.1	13.9	NM	P-D	737	-1,133	def
Interlake	NE	NE	5.9	206.1	-6.1	3.5	NM	D-D	716	-21	def
Medians	11.4	12.5	10.0	25.5	6.5	8.7	NM	17.3	1,055	35	3.8
Industry medians	10.8	13.0	10.2	29.8	5.2	8.4	NM	17.6	1,138	43	4.3
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

The three faces of Nordson

Nordson Corp. is a beacon of stability in the cyclical capital goods sector. Based in Westlake, Ohio, Nordson makes equipment that applies adhesives, coatings and sealants to everything from diapers to cars. Nordson maintains a virtual lock on the business. The company has posted a five-year average return on equity of 25%, topping much bigger stars like Emerson Electric. Nordson's five-year average annual sales growth is more than double the industry average.

Are these results skewed by huge debt lurking in Nordson's balance sheet? Hardly. Nordson's debt/capital ratio is just 7.8%, about a fourth the av-

erage industry leverage.

Nordson takes overseas markets seriously. It generates some 60% of its sales (\$488 million in the latest year) outside North America—a big percentage for a firm of its size. This insulates Nordson from U.S. cycles in capital goods spending. As Nordson President William Madar puts it: "It's rare when all economies have slow growth."

Another Nordson secret: It gets 40% of its business from retrofitting or improving its existing equipment. Thus when customers—automakers, appliance manufacturers, consumer package goods firms—aren't adding new capacity, they're upgrading the Nordson machines they already have. Nordson's goods also have a

short payback period of less than a year, easier to swallow in a bad economy.

Finally, each year Nordson spends some 5% of sales on new product development, whether business is good or bad. It recently introduced a product that automatically cleans the nozzle of the device it sells to coat the insides of beverage containers—cutting maintenance downtime.

Madar closely tracks the research efforts of the big chemical companies, which spend \$3 billion a year developing new products. A decade ago, skeptics said powdered coatings would take only a small piece of the market. Madar didn't buy that view. Powdered coatings now have a 20% share and Nordson makes much of the



Nordson's Bill Madar
"Billions" for research.

equipment to apply them. "We only do about a half-billion in sales," laughs Madar, "but I tell people we have a \$3 billion R&D budget." —M.B.

High yields you can count on

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Chemicals

The chemical industry set records last year, and this year looks even better—but not for all companies.

By Neil Weinberg

In 1994 the chemical industry's production, sales and exports set new records. Capacity usage as of October, the latest month for which figures are available, hit 84%, the highest level in several years. This enabled chemical makers to raise prices 5.2% on average and make the hikes stick. With shipments up around 8.5%, to \$340 billion, the industry was able to cut its inventory-to-sales ratio to 1.2 in September from 1.4 a year earlier.

Overall, the 57 chemical companies below show a median net profit margin of 5.5% over the last 12 months; one year earlier this figure was 3.7%. Equity returns in this capital-intensive industry also rose smartly. Median 12-month return on equity was 15.5%, against 10.5% in 1993.

How long will the good times last? For most companies, at least through this year. Industry executives expect sales to rise 8% and profits 15%, according to a recent survey by the Chemical Manufacturers Association.

Commodity chemical makers such as Monsanto and Du

Pont are finally sharing in the wealth as strong demand has absorbed nagging overcapacity. Prices for mainstay commodity products—including ethanol, ethylene glycol and methanol—nearly doubled between last spring and fall.

Specialty chemical companies are also prospering. Outfits like Loctite Corp. are benefiting from strong auto-sector demand, while Dexter Corp. and its competitors, which make chemicals for the electronics industry, are filling surging orders from computer equipment makers.

The big challenge for the specialty firms will be managing raw materials price hikes, especially for building-block commodities like ethanol and ethylene glycol.

Companies that fail to pass along higher costs will see their margins narrow. H.B. Fuller, for instance, is feeling the squeeze. By contrast, industrial gas manufacturers Air Products & Chemicals and Praxair are leveraging strong demand from steel and glass makers to boost prices by more than their costs are rising.

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Diversified											
FMC	35.9	20.4	12.7	65.9	3.4	2.8	-17.3	-54.8	3,918	46	1.2
A Schulman	16.2	15.2	14.7	6.2	2.7	9.3	6.4	14.4	749	45	6.0
Monsanto	12.7	20.0	15.3	27.2	-1.7	2.3	-4.4	11.6	8,064	626	7.8
PPG Industries	11.7	15.8	13.2	13.8	NM	4.5	-10.7	35.1	6,050	418	6.9
Rohm & Haas	10.9	15.1	10.9	29.5	4.9	5.2	-10.3	182.1	3,434	243	7.1
Dow Chemical	9.7	8.1	7.5	32.9	1.6	4.1	-32.1	50.3	19,026	668	3.5
El du Pont de Nemours	8.0	21.0	13.2	32.0	1.4	4.5	-24.2	500.0+	33,970	2,318	6.8
Hercules	7.8	17.7	14.2	19.0	-1.0	0.9	37.9†	33.9	2,782	241	8.7
Rhone-Poulenc	5.7	3.9	6.3	35.9	4.2	-1.4	-24.4	-38.4	15,131	346	2.3
Union Carbide	5.6*	18.0	12.4	36.0	-3.8	-2.7	-29.5	97.7	4,628	276	6.0
Univar	4.4	def	def	38.6	7.5	0.5	-29.8	P-D	1,841	-17	def
First Mississippi	1.3	18.7	13.2	31.2	NM	25.2	NM	D-P	552	32	5.8
Olin	def	def	def	34.6	NM	8.5	NM	P-D	2,579	-58	def
Imperial Chemical Inds	NA	def	2.4	28.4	-3.7†	0.6	NM	D-D	13,248	-19	def
Medians	8.0	15.5	12.6	31.6	0.2	3.5	-24.3	24.1	4,273	242	5.9
Specialized											
Lyondell Petrochem	45.6	NE	22.1	80.2	-4.0	-15.7	NM	500.0+	3,584	134	3.7
Vigoro	37.7	26.5	15.2	28.2	3.4	30.1	NM	18.6	756	50	6.6
Crompton & Knowles	28.6	21.4	20.1	12.1	13.9	3.7	23.8	3.1	574	52	9.0
Nalco Chemical	26.5	19.7	14.1	8.0	7.2	-1.3	8.3	-25.2	1,381	115	8.3
Great Lakes Chemical	24.6	22.3	22.3	15.1	25.5	9.3	21.1	6.5	1,930	277	14.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.

Compound growth

Making paints and coatings for packaging and industrial products isn't very glamorous, but Minneapolis-based Valspar Corp. has something better than glamour: 20 consecutive years of earnings increases. In fiscal 1994 (ended Oct. 28) Valspar's pro forma earnings rose another 23%, to \$44 million (\$2 a share), on an 11% sales gain, to \$724 million.

Valspar has accomplished this largely by acquiring companies in similar businesses, thereby building scale economies.

Over the past decade Valspar has closed at least one laggard plant each year and has kept corporate overhead below 2% of revenues—less than half the industry average. Valspar's return on capital for fiscal 1994 was 22%, 11 points above the industry median for specialty chemical companies.

Last year Valspar wanted to buy Cargill's resin products division, to gain access to some new technology. But the Federal Trade Commission objected, fussing that the deal would mean too much business concentration in the Midwest.

Solution? Valspar bought the unit for \$76 million in cash, then last April it spun off most of the combined resin businesses to shareholders as a separate company, McWhorter Technologies (1994 sales, \$281 million). Valspar got what it wanted: technology from Cargill for its own coatings business. Valspar has also

formed a purchasing cooperative to cut materials costs for itself and McWhorter. "We think this is a good use of cash flow," says Valspar Chairman C. Angus Wurtele, 60, of its purchase of Cargill's resin business.

Valspar has made a strategic mistake: It has relied too much on the North American market and neglected its export potential—only 3% of revenues came from exports. But that should soon

change. Newly hired President Richard Rompala, 48, arrives from rival PPG Industries, where he headed PPG's internationally active coatings and resins division. He plans to follow Valspar's U.S. customers into Europe and Asia via acquisitions, joint ventures or other alliances with local partners.

Now that it's nearly a \$1 billion company, Valspar can de-emphasize acquisitions somewhat. Says Rompala: "In the

Robert Pajor, Richard Rompala and C. Angus Wurtele of Valspar

Building on 20 straight years of record earnings.

past Valspar grew 15%, with 10% from acquisitions and 5% internally. That pattern will reverse over the next five years." Few companies in mature markets would complain about 15% growth—wherever it comes from. —N.W.



Larry Kennedy

Environmental regulations will hurt some companies this year and beyond while helping others. Rohm & Haas, for example, took a \$17 million writeoff in 1994 for environmental remediation. At the same time, new environmental laws should keep demand for powder coatings growing at double-digit rates throughout the decade. Powder coatings are an efficient, less hazardous alternative to liquid solvents; among the major producers are Valspar Corp. (see p. 135) and Ferro Corp. Winners will also include companies strong in research and development like Cytec Industries and Avery Dennison.

Even if the U.S. economy slows in 1995, many chemical makers should enjoy strong exports as Europe comes out of recession and demand from Latin America expands. Overall, exports should rise 10%, to around \$55 billion in 1995 on the heels of 1994's 11% gain. Loctite, which makes adhesives, and Lawter International, a specialist in ink resins, are among the firms deriving a large share of operating income from Europe. Last month's congressional approval of the General Agreement on Tariffs & Trade will add around \$2.5 billion a year to U.S. chemical exports ten years hence, the CMA predicts.

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Valspar	22.9	22.8	22.0	20.2	7.9	13.4	15.1	12.4	787 ¹	45 ¹	5.8
Sigma-Aldrich	22.0	18.6	18.3	2.4	14.3	15.5	13.5	6.3	823	110	13.4
Betz Laboratories	21.3	16.8	15.5	0.0	9.5	1.8	8.2	-13.7	701	65	9.2
Loctite	21.1	21.2	21.1	0.7	7.2	10.8	7.5	5.4	673	76	11.3
Intl Flavors & Frags	19.7	24.7	24.2	1.6	7.6	7.3	9.0	19.2	1,270	218	17.2
RPM	17.8	18.5	12.8	57.1	15.3	28.6	9.5	15.7	860	56	6.5
Sherwin-Williams	17.3	17.9	17.1	2.3	8.8	6.1	9.5	14.8	3,064	182	6.0
Sterling Chemicals	16.2	26.8	8.3	68.3	NM	35.1	-34.7	D-P	701	19	2.7
Lubrizol	16.0	23.9	22.1	6.2	6.6	4.5	NM	163.0	1,577	174	11.1
NCH	14.6	10.9	10.7	2.2	3.3	2.2	NM	-7.1	689	31	4.6
Morton International	14.2	18.5	16.5	12.0	14.1	24.4	11.4	80.1	2,976	246	8.3
Airgas	13.1	15.5	8.2	48.7	16.3	32.6	NM	57.0	601	26	4.3
Wellman	13.1	8.4	6.0	29.7	21.5	7.2	-3.1	-21.7	895	44	4.9
Stepan	13.0	9.1	6.5	38.0	6.3	-1.8	NM	-6.4	433	10	2.3
Cabot	12.8	15.6	9.9	24.9	NM	4.1	NM	117.8	1,680	79	4.7
Air Prods & Chems	12.3	11.2	7.9	26.6	5.6	4.7	NM	17.0	3,485	234	6.7
HB Fuller	11.9	9.5	9.1	30.6	7.4	8.1	9.2	-19.0	1,049	24	2.3
Ferro	11.0	12.6	11.2	15.9	0.7	7.9	NM	-13.4	1,146	51	4.4
Scotts	10.5*	16.6	14.7	55.2	12.1	30.1	94.5†	18.7	606	24	3.9
Grow Group	10.3	10.4	9.5	0.6	-1.4	13.8	NM	-5.4	424	14	3.3
Dexter	9.1	11.8	9.4	36.4	2.1	6.1	NM	7.0	945	37	3.9
Georgia Gulf	7.9	NE	34.3	97.7	-7.6	8.8	-36.0	82.5	842	75	8.9
Witco	7.7	7.0	5.4	26.1	5.2	3.9	-12.6	5.9	2,183	54	2.5
Akzo Nobel	6.5	4.4	4.3	18.4	-1.0	-2.0	-18.9	-31.2	9,498	199	2.1
BF Goodrich	5.8	13.4	10.4	31.7	-3.6	7.6	NM	209.3	2,093	119	5.7
MA Hanna	5.7	3.7	4.5	44.2	7.6	16.7	-33.0	-65.6	1,732	12	0.7
WR Grace	4.1	18.1	11.3	48.8	-5.0	0.6	-35.5	D-P	4,812	265	5.5
NL Industries	2.8	NE	1.2	114.0	-4.3	3.2	NM	D-D	848	-50	def
IMC Global	def	7.8	8.2	30.0	NM	69.3	NM	D-P	1,596	41	2.6
Terra Industries	def	14.9	11.5	13.3	-4.5	30.1	NM	62.5	1,507	37	2.4
Albemarle	NA	11.1	6.5	29.3	2.9	16.8	NA	NA	1,029	47	4.5
Cytec Industries	NA	31.2	18.7	0.0	-2.9	4.8	NA	D-P	1,060	45	4.2
Eastman Chemical	NA	25.3	10.0	48.5	6.4	6.6	NA	NA	4,140	270	6.5
Ethyl	NA	22.6	13.4	44.7	NA	NA	NA	NA	1,007	78	7.7
Geon	NA	14.9	10.9	21.8	-6.4	17.6	NA	D-P	1,106	35	3.2
Intl Specialty Prods	NA	6.7	5.1	6.6	6.2	3.4	NM	0.0	577	36	6.2
Praxair	NA	28.8	13.8	44.8	6.3	5.7	NA	103.0	2,602	188	7.2
Rexene	NA	NE	6.5	86.9	-10.4	15.0	NA	NA	489	1	0.1
Medians	13.1	15.5	11.2	26.6	5.9	7.5	-35.1	14.8	1,049	52	4.9
Industry medians	12.1	15.5	11.3	29.3	3.4	6.1	-29.6	14.8	1,381	54	5.5
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. ‡Does not reflect spinoff of McWhorter Technologies. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

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Computers & communications

One thing is clear:
Computers and communications
really are merging.

By Gary Samuels

After being prematurely declared dead, the mainframe made a comeback last year, fueling stock gains for IBM and Amdahl. The big winner in PCs, though, was Compaq Computer, which only two years earlier had gone through a wrenching crisis. In 1994 Compaq became the world's largest producer, displacing Apple and IBM.

In a challenge to Intel's monopoly, Apple's PowerPC-based Macintosh sold briskly, but IBM fumbled and delayed the launch of its desktop PowerPC systems. In December Intel was hurt by news of a math-processing flaw in its Pentium microprocessor. IBM said it would stop shipping Pentium PCs until a fix could be found.

Multimedia was the hot topic, and over 10 million CD-ROM drives were sold in the U.S. last year. But soon multimedia will be widely available on-line. Computer and telephone networks are starting to look the same.

As a dramatic acceleration in communications looms on the horizon, regulators are on the verge of pushing long distance companies, local phone monopolies and cable monopolies into each other's markets.

AT&T is looking strong at the moment—raising long distance prices and snatching back market share lost to MCI in a marketing battle based largely on bad-mouthing.

But the local Bells are at risk. They face cut-price poaching by everyone from urban bypass firms that siphon big business customers to unholy alliances of cable TV operators and long distance providers. Bells—like Ameritech, Bell Atlantic and U S West—that have cut costs and written off obsolete copper assets are better prepared.

The Internet came of age, and on-line services such as CompuServe rushed to make access easier. Modem makers such as Motorola and U.S. Robotics will benefit. ■

A gnat on steroids

Bernard Ebbers was running a chain of motels in rural Mississippi in 1983 when friends approached him about investing in a telecommunications company. "I didn't know what telecommunications was," says Ebbers, 53. "I just knew the business plan showed good cash flow." The cash flow failed to materialize, but Ebbers was hooked: Long Distance Discount Service was broke, and the board asked Ebbers to take charge.

Today Bernie Ebbers is still president, and LDDS Communications, still in Jackson, Miss., is the fourth-biggest long distance company in the U.S., behind AT&T, MCI and Sprint. Once it completes its \$2.5 billion cash purchase of Wiltel Network Services, LDDS will own



Bernie Ebbers
of LDDS
**"I didn't
know what
telecommunica-
tions was."**

one of just four national fiber-optic networks.

LDDS purchases long distance phone lines wholesale and resells at retail. Ebbers focused on small companies. Such customers rarely get more attention from the big outfits than occasional telemarketing cold calls. Ebbers orders his salespeople to call on prospects in the flesh. "Would you rather have someone call on you in person and explain what they are selling or receive

a phone call during the day?" he asks.

That's where Ebbers' talent comes in. Born in Edmonton, Alberta, Ebbers taught junior high science courses and began coaching sports teams. "Sales and marketing is by and large teaching and coaching," says Ebbers.

Ebbers requires his sales staff to hit 15% a year internal growth, a goal he has met consistently.

He has also been on an acquisition binge. In 1993

he bought John Kluge's Metromedia Co.'s long distance resale business.

To expand outside the U.S., Ebbers bought a Los Angeles-based company called IDB Communications with reciprocal deals with phone companies in 65 countries. Never one to neglect even a remote prospect, Ebbers met with Fidel Castro to get direct U.S.-to-Cuba phone service via satellite, which he started in late 1994. The Cuba business is small now, but once the Wiltel and IDB deals go through, LDDS will have increased its share of the \$80 billion long distance market from 3% to 5%. The acquisition of Wiltel will also help lower line costs.

Isn't he awed at the prospect of competing with AT&T? "We only have 5% of the market, so we're kind of like a gnat on an elephant's back," Ebbers says. A gnat on steroids. —G.S.

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Computers & communications	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Major systems											
Compaq Computer	18.7	27.7	27.5	7.8	22.9	53.1	NM	81.9	9,816	775	7.9
Dell Computer	17.5	22.3	19.9	16.0	64.8	15.8	NM	D-P	3,186	107	3.4
Apple Computer	16.7	15.0	11.9	9.5	12.0	15.2	-15.6	257.5	9,189	310	3.4
Hewlett-Packard	15.1	18.2	17.6	5.7	15.8	23.0	12.7	32.0	24,991	1,599	6.4
Stratus Computer	14.1	6.7	6.9	1.6	13.6	14.6	NM	-43.7	574	30	5.3
Sun Microsystems	13.1	13.5	12.7	4.7	21.0	13.4	16.8	41.3	5,003	218	4.4
AST Research	12.7	1.4	1.9	35.5	38.8	43.2	NM	D-P	2,348	5	0.2
Silicon Graphics	9.7	18.5	18.1	19.2	40.7	38.4	32.5	49.6	1,607	157	9.8
Cray Research	9.1	9.0	8.5	10.6	2.8	20.4	-10.5	500.0+	987	71	7.2
Harris	9.0	10.8	8.8	35.3	6.1	7.4	31.2	9.3	3,374	126	3.7
SCI Systems	6.4	7.8	5.7	47.7	12.6	15.9	NM	-28.2	2,050	23	1.1
Teradyne	5.6	14.1	14.3	2.0	3.7	18.2	NM	107.5	635	61	9.7
NEC	0.8	1.0	2.8	55.0	2.4	1.8	-36.3	D-P	36,380	83	0.2
Intergraph	def	def	def	3.3	7.2	-7.0	NM	D-D	1,013	-122	def
Raychem	def	def	def	24.2	6.5	7.5	NM	P-D	1,497	-53	def
Tandem Computers	def	21.9	20.3	8.5	4.6	3.8	NM	D-P	2,108	170	8.1
Itel	def	54.2	11.9	31.1	NM	-3.3	NM	D-P	1,751	216	12.4
Unisys	def	8.1	8.5	41.0	-5.4	-6.6	NM	-31.6	7,378	278	3.8
Amdahl	def	def	def	10.3	NM	-20.2	NM	D-D	1,583	-7	def
IBM	def	11.4	7.9	36.7	NM	1.1	NM	D-P	63,552	2,172	3.4
Data General	def	def	def	34.0	-3.5	4.0	NM	D-D	1,121	-88	def
Control Data Systems	def	def	def	0.0	-15.0	13.1	NM	P-D	528	0	def
Digital Equipment	def	def	def	23.5	1.7	-3.7	NM	D-D	13,558	-2,197	def
Gateway 2000	NA	29.7	28.8	7.7	118.0	57.4	NM	-10.9	2,423	88	3.6
Wang Laboratories	NA	NA	NA	0.6	-21.0	-23.1	NA	NA	837	7	0.8
Medians	5.6	9.9	8.5	10.6	6.1	13.1	NM	36.6	2,108	83	3.4
Peripherals & equipment											
Cisco Systems	63.4	50.7	52.9	0.0	101.9	79.9	106.3	70.3	1,387	350	25.2
Cabletron Systems	46.6	32.9	32.5	0.0	60.6	38.0	53.3	36.6	699	139	19.9
Intl Game Technology	41.3	35.3	31.9	17.6	34.8	41.1	63.8	11.5	674	140	20.8
EMC	29.0	47.3	33.0	31.9	42.7	85.8	120.0†	108.9	1,195	220	18.4
Future Now	27.7*	def	def	68.1	96.4	35.1	34.4*	P-D	817	-41	def
Intel	27.0	29.1	28.3	3.1	24.5	29.5	32.8	17.6	10,682	2,510	23.5
Cirrus Logic	26.4	18.2	17.8	5.8	66.9	65.2	19.6	352.1	707	62	8.8
Micron Technology	25.7	60.0	54.7	10.2	30.7	96.6	NM	268.3	1,629	401	24.6
Soletron	23.3	20.6	15.6	29.8	61.3	74.2	39.7	65.0	1,457	56	3.8
Tech Data	19.7	16.3	16.3	3.7	43.4	57.9	32.2	30.1	1,948	36	1.8
Quantum	19.4	35.5	25.7	31.1	57.5	34.6	45.7	500.0+	2,609	151	5.8
Pioneer-Standard Elec	18.4	20.9	18.6	28.9	12.8	37.6	18.4	34.2	687	22	3.2
Advanced Micro	18.3	22.4	20.8	4.6	8.9	22.5	NM	16.4	2,003	306	15.3
Seagate Technology	16.8	17.1	12.9	26.2	16.9	19.0	22.5	17.1	3,659	212	5.8
Anthem Electronics	16.5	7.9	8.0	0.0	19.4	10.1	10.8	-35.0	692	17	2.4
AMP	15.7	16.5	15.3	8.2	5.4	11.1	NM	14.9	3,803	340	8.9
Applied Materials	14.6	29.5	26.4	11.4	21.4	57.8	NM	126.3	1,519	185	12.2
Motorola	14.4	20.6	18.2	13.1	14.1	32.5	11.8	51.6	20,785	1,385	6.7
Marshall Industries	13.9	15.4	13.2	9.1	8.0	20.7	9.7	35.2	846	34	4.1
Vishay Intertech	13.7	13.1	9.4	40.7	24.5	13.3	10.4	18.3	918	50	5.5
Arrow Electronics	13.6	18.8	14.5	31.2	20.0	56.9	105.8†	11.8	3,589	95	2.6
Varian Associates	12.6	18.2	16.2	11.7	2.2	18.4	15.5†	76.2	1,552	79	5.1
Molex	12.4	12.3	12.2	0.8	11.5	14.0	9.2	28.8	1,000	101	10.1
Merisel	12.1	11.2	7.5	44.1	47.3	61.0	NM	-1.2	4,544	26	0.6
Wyle Laboratories	10.1	def	0.0	13.3	8.1	22.9	9.8	P-D	726	-1	def
Texas Instruments	9.5	26.3	22.1	22.1	5.7	21.8	NM	50.1	9,907	636	6.4
Natl Semiconductor	8.5	27.7	26.4	1.0	6.5	9.1	NM	69.2	2,290	266	11.6
Avnet	8.0	10.1	9.6	21.5	11.5	40.3	6.4	53.8	3,623	107	3.0
Analog Devices	5.4	14.9	13.0	13.7	8.5	17.8	NM	74.7	749	67	8.9
Bell Industries	2.9	10.9	9.6	27.4	NM	24.2	NM	D-P	472	10	2.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Computers & communications	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %	latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Tektronix	2.5	14.8	13.5	17.4	-1.9	4.1	NM	D-P	1,341	67	5.0
Storage Technology	1.6	0.9	3.1	25.6	12.2	6.4	NM	D-P	1,509	20	1.3
Dynatech	1.0	def	def	18.2	3.8	-6.8	NM	P-D	468	-28	def
3Com	0.3	def	def	0.3	15.3	42.0	NM	P-D	914	-26	def
M/A-Com	def	3.0	4.2	33.3	-4.3	0.5	NM	D-P	342	3	1.0
VLSI Tech	def	13.3	11.3	28.3	17.6	14.8	NM	D-P	571	30	5.2
Western Digital	def	52.1	34.1	14.6	7.6	38.7	NM	D-P	1,719	113	6.6
LSI Logic	def	28.2	15.5	29.7	10.9	20.9	NM	78.5	835	88	10.5
Conner Peripherals	def	35.6	10.9	61.8	50.4	6.8	NM	D-P	2,348	74	3.2
Maxtor	def	def	def	66.0	30.6	-26.6	NM	D-P	971	-193	def
General Instrument	NA	50.0	19.1	62.8	NM	48.5	NA	205.7	1,904	201	10.6
Medians	13.7	18.2	15.3	17.6	15.3	24.2	7.8	51.6	1,387	79	5.5
Software											
Microsoft	39.7	29.8	31.8	0.0	43.5	25.4	42.1	23.1	4,913	1,223	24.9
Oracle Systems	30.7	45.6	40.9	8.8	25.3	35.5	NM	81.7	2,160	308	14.2
Computer Associates	27.5	25.2	20.4	3.3	13.4	16.5	34.7	9.7	2,308	328	14.2
Novell	24.3	20.4	22.8	0.0	31.4	69.6	NM	D-P	1,821	255	14.0
Lotus Development	16.2	def	def	7.2	16.5	3.8	NM	P-D	985	-6	def
Legent	16.1	13.6	14.0	0.0	35.3	13.5	NM	-16.3	502	51	10.2
Cadence Design	9.8	6.6	7.0	1.2	42.4	7.9	NM	94.1	413	15	3.6
Policy Management Sys	5.5	6.1	5.0	0.9	17.7	1.0	NM	D-P	476	28	5.9
Mentor Graphics	def	def	def	19.6	NM	-2.2	NM	D-D	332	-17	def
Borland Intl	def	def	def	5.7	1.8	-30.8	NM	D-D	313	-17	def
Computervision	NA	NE	def	NE	-4.5	-27.8	NM	D-D	641	-4	def
Medians	16.2	6.6	7.0	1.2	17.7	7.9	NM	9.7	641	28	5.9
Telecommunications											
MCI Communications	23.5	15.7	10.5	33.4	16.2	13.1	10.2	5.7	13,065	751	5.8
Alltel	18.7	19.0	10.7	46.6	17.5	28.1	5.7	14.7	2,844	297	10.4
AT&T	17.8	32.4	16.2	33.6	1.8	9.4	NM	-3.0	72,443	4,354	6.0
LDDS Communications	16.7†	8.9	8.1	22.0	27.4	72.7	19.3	464.7	1,668	156	9.4
Ameritech	16.7	13.7	9.3	27.9	3.2	6.4	3.5	-22.2	12,275	1,140	9.3
Citizens Utilities	16.0	13.6	9.2	35.3	16.3	33.1	6.3	9.5	817	137	16.8
Bell Atlantic	15.2	16.1	9.4	38.2	3.4	4.4	1.8	-3.8	13,500	1,425	10.6
Southwestern Bell	13.7	20.1	11.8	31.8	4.7	7.6	6.2	14.3	11,309	1,610	14.2
GTE	13.1	12.4	7.5	43.7	4.0	-0.3	-9.0	-34.5	19,759	1,292	6.5
Rochester Telephone	13.0	15.8	10.8	34.2	13.5	11.9	2.9	33.5	979	109	11.2
BellSouth	10.3	9.5	7.0	31.8	3.0	5.8	-7.8	-18.1	16,575	1,348	8.1
Corning	9.6	6.3	6.5	31.6	13.8	21.9	NM	-39.3	4,580	125	2.7
Pacific Telesis	9.4*	8.5	6.1	47.2	0.4*	-0.5	-29.8*	-50.5	9,176	469	5.1
Comsat	8.6	10.5	7.4	31.9	12.0	23.4	NM	-1.4	777	81	10.5
US West	8.6	20.8	11.1	42.5	2.3	4.9	-17.9	176.9	10,780	1,281	11.9
Scientific-Atlanta	7.6	10.5	10.6	0.3	7.9	19.7	-8.4	58.3	874	40	4.6
DSC Communications	7.0	21.2	19.9	1.5	13.3	34.6	16.6	78.9	909	138	15.2
So New Eng Telecom	6.6	def	0.0	39.0	0.4	4.5	NM	P-D	1,707	-44	def
Nynex	5.9	def	def	35.1	0.7	-0.1	NM	P-D	13,309	-648	def
Tele & Data Systems	4.4	3.5	3.8	23.4	24.3	23.3	14.4	6.2	686	48	7.1
AirTouch Commun	3.2†	3.2	3.8	1.8	15.4*	8.2	NA	340.0	1,062	110	10.3
Cincinnati Bell	2.9	def	def	49.5	8.1	3.8	NM	P-D	1,161	-52	def
Northern Telecom	2.5	7.2	6.2	29.8	9.6	4.3	NM	D-P	8,583	221	2.6
Sprint	NA	21.9	12.0	45.5	8.3	11.6	-7.9	118.4	12,398	867	7.0
Medians	9.6	11.5	8.6	33.5	8.2	8.8	-7.9	5.9	6,582	189	7.6
Industry medians	10.2	13.7	10.7	19.6	12.0	15.2	NM	31.1	1,629	101	5.5
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Construction

While rising interest rates are pinching housing, factory-building and power-plant construction respond to different forces.

By Christopher Palmeri

Like a runner in a relay race, the construction industry hopes to smoothly pass the baton from the already slowing housing sector to nonresidential building in 1995. If things work out this way, Robert Murray, chief economist with McGraw-Hill's F.W. Dodge construction information unit, expects overall spending on construction to continue its three-year-long recovery, climbing 3% this year, to \$294 billion. Spending on hotels, highways, factories and prisons will pick up the slack as single-family housing slows.

Housing, interest-sensitive as always, began to cool in late fall, as mortgage rate increases began to influence demand. Housing starts were still expected to finish the year up 11%, to 1.43 million homes, according to the National Association of Homebuilders. This year will almost certainly show a slide. How severe a slide? That depends on Alan Greenspan, but even he doesn't know for sure where interest rates are heading.

Not everyone has given up on housing, however. Donaldson, Lufkin & Jenrette housing analyst Barbara Allen reasons that despite the rise in interest rates the more affluent part of the population will still trade up to larger houses or build extensions on current ones, so long as the

economy remains strong. "One of the major myths that Wall Street holds about empty nesters is that they move down in house size and price points," Allen says. "House size corresponds with income, not with the number of people living in the house." Allen thinks spending on repair and remodeling may soon surpass spending on new home construction. She sees buying opportunities in diversified home builders like Centex, Pulte and Lennar, whose shares have all been hammered lately. She also has high hopes for building materials companies like Owens-Corning, USG Corp. and Mueller, a maker of copper and brass fittings.

But interest rate rises seem to pose less of a threat to nonresidential construction than to residential. Reason: As long as corporate profits remain strong, businesses will build factories. Nonresidential construction is less interest-rate sensitive than housing but more corporate-profits related. "There's been a big pickup in pricing for chemicals and paper but little in the way of new capacity," observes Carey Callaghan, an engineering and construction analyst at Lehman Brothers. "Typically, three years into a recovery you would see a pickup in industrial construction, and we haven't seen it yet."

Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Commercial builders											
Jacobs Engineering	18.2	10.7	10.8	0.0	8.2	2.0	13.1	-34.8	1,166	19	1.6
Fluor	14.8	17.9	16.8	4.6	6.4	10.7	NM	221.1	8,293	188	2.3
Butler Manufacturing	13.1	36.9	25.5	35.0	-3.4	15.2	-15.6	223.5	639	23	3.6
Foster Wheeler	10.5	16.2	10.7	46.6	21.3	-11.8	13.7	22.1	2,308	65	2.8
Morrison Knudsen	8.9	def	def	4.8	6.2	1.0	-14.7*	P-D	2,641	-24	def
Apogee Enterprises	7.1	6.0	5.9	29.5	6.5	17.5	-26.9	21.4	729	7	0.9
Granite Construction	7.0	11.3	9.6	9.9	4.2	27.8	-29.9	500.0+	687	19	2.8
CBI Industries	4.3	def	0.4	38.9	3.9	7.9	NM	P-D	1,799	-26	def
Forest City Enterprises	2.8	def	3.4	90.5	11.7	2.7	NM	P-D	503	-2	def
Turner	def	def	def	49.5	-5.0	-3.8	NM	P-D	2,643	-6	def
Perini	def	def	1.1	30.2	5.3	-20.1	NM	D-D	942	0	def
Guy F Atkinson	def	def	def	14.4	-13.1	0.4	NM	P-D	482	-12	def
Medians	7.0	2.3	4.7	29.9	5.8	2.3	NM	-34.8	1,054	4	0.5

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

For whom the road tolls

"A few years ago, when I asked construction company executives if they would be interested in taking long-term equity positions in toll roads, they'd roll around on the floor laughing," says Carl Williams, who runs the California Department of Transportation's private toll road division.

David Watts didn't laugh. Watts, 55, is chief executive of Granite Construction Inc., one of the nation's largest heavy construction contractors. Based in Watsonville, Calif., Granite has emerged as the leading publicly owned firm in the growing market for private toll road construction.

Teaming up with companies like Bechtel, Peter Kiewit Sons', the Perot Group and Greiner Engineering, Granite has won pieces of three toll road projects in California and Washington State. Total estimated cost: \$1.6 billion. Later this year Watts expects to finish State Route 91, which connects Riverside County to Anaheim, Calif. Granite is putting up about \$8 million of the project's \$125 million price tag. The company will then be entitled to up to one-fourth of the highway's profits for 35 years (after which all profits revert to the state). Returns for the project's investors are capped at 17% of total capital.

Tolls on the 10-mile stretch will be set by the investors and could hit \$2.50 per car at peak times, but the road is expected to save drivers as much as

45 minutes. "The people who use the highway will pay for it," says Watts.

Granite's 12 highly autonomous regional offices will bid on anything from paving a driveway to building a \$50 million airport runway. The company's strength, however, lies in building highways and putting in improvements for new home construction.

Both of these prime construction markets are under pressure, particularly in California, where more than half of Granite's sales originate. Higher interest rates and an overtaxed economy have stalled California's housing recovery; and legislators are diverting funds from new

highway construction to the retrofitting of bridges to make them more earthquake-resistant.

Private highway construction, an idea whose time has finally arrived on the back of government's dwindling ability to increase taxes, is providing a nice new line of business for Granite. Watts expects private toll roads to generate about 10% of Granite's 1995 revenues, up from nothing two years ago. He adds that Granite's private highway investments are more profitable than traditional contract road building.

Smith Barney analyst Tobias Levkovich thinks Granite will earn about

Granite Construction's
David Watts

**"The people who
use the highway
will pay for it."**

\$19 million, or \$1.60 a share, on revenues of \$715 million this year. That very thin net margin is actually pretty good for the construction industry and would give Granite a strong 11.8% return on its stockholders' equity. That estimate is below peak earnings of \$1.70 a share in 1990, just before California's economy went into the tank, but it's a huge recovery from 1993's 30 cents per share.

A contractor worth watching. —C.P.



Andy Elia

That would be good news for engineering giants Fluor and Foster Wheeler. Both should benefit from an uptick in domestic chemical and paper construction, with even better prospects overseas. Smith Barney recently reported that worldwide demand for new power-generating capacity could top \$1 trillion over the next decade. Half of that new demand is coming from Asian countries. There's

more to that than wishful thinking. Foster Wheeler has \$1.2 billion worth of bids outstanding for boiler orders in China alone.

That's also good news for cement and aggregates firms like Hanson, Vulcan Materials, Lafarge and Southdown, which are pushing through price increases for the first time in years, thanks to increased worldwide demand.

Construction	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Residential builders											
Clayton Homes	19.4	17.6	15.3	13.1	21.1	31.5	23.0	22.2	661	73	11.0
Pulte	15.4	26.0	19.8	19.1	6.6	7.0	15.5	88.5	1,699	146	8.6
Oakwood Homes	14.1	13.6	9.7	43.4	38.5	79.7	37.2	22.2	579	34	5.9
Kaufman & Broad Home	12.1	11.7	6.1	60.0	NM	4.4	-17.9	9.8	1,305	46	3.5
Centex	11.3	17.1	13.9	23.4	9.9	20.6	8.9	61.6	3,391	116	3.4
Lennar	10.5	15.3	9.4	33.8	6.0	52.5	8.7	59.2	841	72	8.6
Del Webb	8.3	10.3	4.1	63.3	20.5	41.7	NM	500.0+	585	20	3.5
Skyline	6.5	9.6	9.6	0.0	8.9	17.0	NM	52.1	599	16	2.7
Hovnanian Enterprises	6.2	6.1	2.7	57.0	7.7	31.1	NM	-25.8	638	11	1.7
Ryland Group	5.2	8.6	6.1	56.0	2.2	13.0	NM	D-P	1,627	28	1.7
MDC Holdings	def	8.9	7.3	60.2	-7.2	26.4	NM	145.7	766	18	2.3
Beazer Homes USA	NA	NA	NA	43.3	38.4	95.1	NA	21.4	537	16	3.0
US Home	NA	11.7	5.6	52.5	NM	21.2	NM	14.2	944	31	3.3
Medians	10.5	11.7	8.3	43.4	7.7	26.4	NM	52.1	766	31	3.4
Cement & gypsum											
Vulcan Materials	13.2	12.3	10.4	11.6	0.8	5.7	-8.9	0.0	1,186	87	7.3
Hanson	12.7	8.3	5.5	47.6	6.1	12.0	-9.7	-31.9	11,422	963	8.4
Florida Rock Inds	4.9	8.1	6.3	8.8	-8.8	12.0	-32.7	145.2	320	14	4.5
CalMat	4.3	4.1	3.5	19.1	-13.6	7.9	-31.8	D-P	365	15	4.0
Lafarge	def	6.3	6.2	35.3	1.9	5.4	NM	D-P	1,557	51	3.3
Southdown	def	3.1	5.8	30.8	-2.9	9.7	NM	D-P	582	16	2.7
USG	NA	NA	NA	85.3	-4.3	17.7	NA	NA	2,185	NA	NA
Medians	4.6	7.2	6.0	30.8	-2.9	9.7	-32.3	D-P	1,186	34	4.2
Other materials											
Carlisle Cos	9.6	15.1	13.1	22.1	NM	16.4	7.8	24.1	674	34	5.1
Masco	9.0	12.9	9.4	39.3	7.9	14.4	NM	24.3	4,330	265	6.1
Manville	6.5	4.0	5.4	56.5	1.2	7.0	-26.8	-60.8	2,432	49	2.0
TJ International	5.9	6.2	10.8	18.2	9.1	21.3	-14.1	34.9	615	15	2.5
Ply Gem Industries	5.5	def	0.0	42.6	11.5	13.5	-11.5	P-D	785	-6	def
Mueller Industries	4.4†	10.4	10.3	26.1	NM	3.1	NA	28.2	517	24	4.7
Noland	2.9	5.8	5.1	24.5	-3.0	6.9	-8.1	120.5	430	6	1.4
Hughes Supply	2.9	8.6	6.5	42.0	3.6	23.2	-10.8	50.0	767	9	1.2
Ameron	def	def	def	43.2	3.7	-10.1	NM	P-D	414	-25	def
Morgan Products	def	def	def	48.4	-2.9	-4.0	NM	D-D	368	-10	def
Eljer Industries	def*	NE	21.4	132.8	-2.4	4.5	NM	500.0+	407	8	2.1
Nortek	def	12.2	9.9	63.5	-9.6	-4.0	NM	D-P	728	13	1.8
Robertson-Ceco	def	NE	def	187.8	NM	-3.4	NM	D-P	379	-22	def
Owens-Corning	NE	NE	409.6	311.6	NM	10.1	-15.1	-25.1	3,219	64	2.0
Medians	2.9	4.9	7.9	42.9	-2.7	7.0	-26.8	26.2	645	11	1.9
Industry medians	5.9	8.4	6.2	39.1	3.7	10.4	-31.8	24.1	748	18	2.5
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Consumer durables

Signs are that 1995 will be another hot auto year. Unless Mr. Greenspan spoils the party.

By Jerry Flint

Want to buy a Jeep or a Mustang this year? You might have to wait. Thanks to climbing sales and a decade's worth of shuttered auto factories, overcapacity is a thing of the past. Hot vehicles are scarce—along with buyer incentives. Profits are humming.

Over the 12 months ended Sept. 30, Ford earned \$4.5 billion, Chrysler earned \$3.3 billion and even General Motors posted profits of \$5.3 billion.

A strong yen (recently 100.55 to the dollar, versus 108.55 a year ago) pushed up prices of Japanese vehicles,

providing a price umbrella for Detroit's own increases. Although Japanese cars sold well in the U.S. last year, Japan's U.S. factories probably made little, if any, money.

This year looks like more of the same. Chrysler's Jeep plant in Detroit just went on three shifts, and more hot Dodge Ram pickups are coming. Ford is putting its bestselling Explorer in a second plant. GM, which bumbled through its changeovers, is hitting full production on its improved cars and utility vehicles like the Chevrolet Monte Carlo and Blazer.

Cool products, hot results

"Our shtick is technology," says Richard Savage, 56, the president of Modine Manufacturing Co. "Technology is part of the secret of why we are successful."

Modine, of Racine, Wis., is in the heat transfer business—making radiators, air-conditioning condensers, and oil coolers for autos, trucks and off-road equipment. It also produces heating, ventilating and air-conditioning equipment for buildings. About a third of the business is in replacement parts.

Over the past five years Modine has earned an average 16% on equity and booked 10% annual growth in sales and profits—one of the best performance records in its industry.

With the auto industry bumping up against full capacity, fiscal 1994, to end this March, will be more impressive. Sales will approach \$900 million from \$670 million in the past year, and net income is expected to move past \$2 a

share from \$1.41 a share in the previous fiscal year. At a recent 28½ a share, Modine's stock is close to its alltime high. Beams Savage: "We went from being a stodgy old business to being an exciting way of earning a living. This industry has been born again."

Savage ticks off some technological breakthroughs that have led to Modine's spectacular growth. Among the products that originated at Modine are its Beta-Weld radiator for big trucks, which cuts down leaks and increases durability; a donut-shaped oil cooler, which is simpler to install onto an engine; and the PF (for parallel flow) air-conditioning condenser, which gives more cooling power in less space. This new condenser is particularly useful with the less potent refrigerant being used to meet new environmental rules.

Modine spends \$10 million a year on research and development. Half of this money goes to manufacturing processes, including metalworking



Chris Cosmeier

Modine's Richard Savage
From stodgy to exciting.

studies, which have become increasingly important as its raw materials—particularly aluminum and copper—go up in price. "We do not start out trying to invent something. We start out by trying to improve," Savage says.

Modine has also learned to put its eggs in more than one basket. These days no single customer has more than 7% of Modine's business. This is a big change from the

late 1970s, when Ford took its light truck radiators in-house and Modine lost one-third of its volume.

Modine made 19 acquisitions over the last ten years, with more to come, particularly in Europe and possibly Latin America. "We think of ourselves as a very focused company, trying to expand intelligently," he says. —J.F.

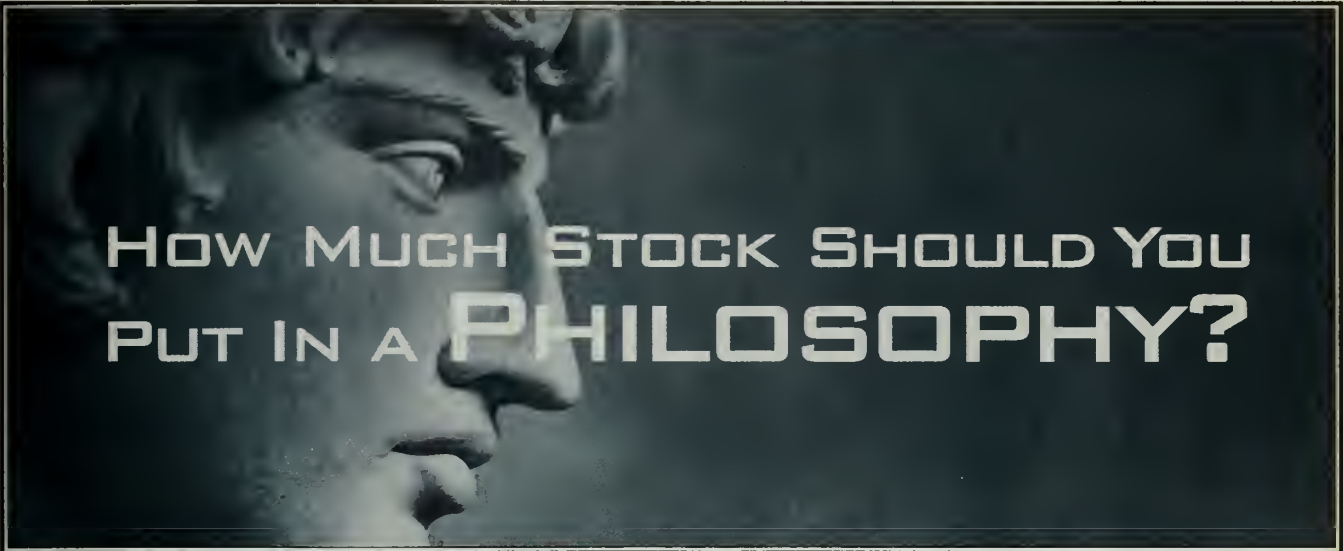
Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Automobiles & trucks											
Chrysler	11.2	53.3	26.5	44.2	3.4	19.3	NM	58.2	49,916	3,322	6.7
General Motors	9.8	163.5	20.8	77.0	1.9	9.5	NM	D-P	149,666	5,263	3.5
Paccar	9.7	20.0	12.7	44.5	NM	26.2	-13.4	58.6	4,258	193	4.5
Ford Motor	5.1	33.1	9.8	70.7	2.4	15.6	NM	500.0+	122,637	4,458	3.6
Toyota Motor†	4.9	2.6	2.2	25.6	3.2	-8.3	-21.3	-28.4	95,150	1,279	1.3
Honda Motor	4.4	2.3	2.3	38.8	2.1	-6.5	-23.6	-37.9	39,255	241	0.6
Nissan Motor†	def	def	def	60.0	3.7	-6.4	NM	D-D	58,952	-883	def
Volvo	def	def	NA	26.2	NM	80.5	NM	D-P	20,368	NA	NA
Navistar Intl	def	30.3	6.7	54.5	NM	12.0	NM	D-P	5,076	81	1.6
Daimler-Benz	NA	def	def	27.5	6.8	14.1	NM	D-D	67,749	-451	def
Medians	4.9	11.3	6.7	44.4	2.3	13.1	NM	58.4	54,434	241	1.6
Automotive parts											
Bandag	30.2	21.8	20.5	0.0	3.7	6.2	4.3	16.1	627	89	14.3
TBC	23.1	16.5	16.5	0.0	3.7	-4.3	12.7	-12.5	554	19	3.5
Cooper Tire & Rubber	22.4	21.3	19.5	4.9	10.1	12.1	20.2	7.7	1,337	117	8.8
Genuine Parts	20.0	19.4	18.7	0.8	7.3	13.1	5.2	11.3	4,746	280	5.9
Modine Manufacturing	16.1	20.5	16.9	21.2	9.5	33.4	9.6	37.0	796	53	6.7
AlliedSignal	15.8	30.5	18.7	33.7	NM	4.4	6.9	17.9	12,342	732	5.9
Snap-on	13.0	13.7	12.3	10.4	4.8	7.2	-9.0	29.9	1,193	96	8.1
Goodyear	12.9	23.6	18.8	29.4	1.7	2.9	NM	9.9	11,994	544	4.5
Eaton	12.9	21.7	17.5	40.9	2.9	24.1	-8.0	33.2	5,562	274	4.9
Echlin	12.4	17.0	14.6	25.8	8.2	14.7	22.3	28.8	2,229	121	5.4
Allen Group	11.0	14.9	12.5	18.0	-5.1	12.1	NM	41.8	322	29	8.9
Standard Products	10.9	13.3	9.7	38.7	8.3	11.3	NM	-14.6	892	31	3.5
Johnson Controls	10.8	13.5	11.6	24.3	12.7	11.1	10.3	20.3	6,871	165	2.4
AO Smith	9.9	19.5	12.2	33.3	2.8	15.8	NM	31.3	1,332	53	4.0
Excel Inds	9.7	15.0	13.0	21.8	15.2	19.9	NM	93.6	592	16	2.8
TRW	9.4	19.2	12.4	30.5	2.9	7.4	-5.9	35.9	8,646	296	3.4
Dana	9.3	25.6	15.2	43.6	NM	17.3	-18.4	66.1	6,373	204	3.2
Cummins Engine	7.2	27.5	24.1	9.6	4.2	10.4	NM	34.6	4,577	235	5.1
Arvin Industries	7.2	9.2	6.9	44.5	7.6	3.5	25.8	-1.1	1,993	39	2.0
Standard Motor Prods	7.1	11.9	9.4	37.9	7.8	11.9	NM	20.1	636	22	3.5
Barnes Group	6.8	13.3	9.4	38.2	NM	9.4	-24.0	168.7	550	14	2.6
Douglas & Lomason	6.3	def	def	29.3	2.8	17.5	NM	P-D	497	-2	def
MascoTech	6.2	10.9	7.0	54.9	-0.9	-15.5	NM	-6.9	1,500	68	4.5
Hayes Wheels Intl	5.2*	16.6	12.0	34.4	-5.2	23.0	NM	68.3	509	31	6.0
SPX	5.2	25.8	12.6	64.6	NM	30.5	-22.6	D-P	989	43	4.3
Federal-Mogul	4.1	12.3	9.1	18.3	5.5	15.1	NM	101.4	1,774	59	3.3
Variety	1.7	20.7	16.1	17.2	4.8	-17.6	-18.1	189.1	2,443	125	5.1
Borg-Warner Auto	NA	12.5	10.8	21.9	-1.4	20.1	NA	NA	1,161	59	5.1
Collins & Aikman	NA	NA	NA	409.1	0.8*	16.3	NA	NA	1,496	NA	NA
Detroit Diesel	NA	16.2	13.8	13.5	12.5	6.1	NA	58.9	1,631	33	2.1
Harvard Industries	NA	NE	16.3	17.0	NM	-0.3	NA	D-D	615	7	1.1
Lear Seating	NA	29.9	NA	66.0	18.4*	56.6	NM	62.1 ³	2,814	22	0.8
Medians	9.9	16.6	12.8	27.6	3.7	12.0	-20.5	30.6	1,417	59	4.3
Appliances											
Sunbeam-Oster	15.3†	21.2	17.8	12.5	4.0	11.3	NA	30.9	1,163	102	8.7
Whirlpool	12.2	18.8	14.7	31.3	9.8	6.0	16.5	35.9	7,909	318	4.0
Harman International	8.5	16.9	12.3	38.6	9.1	35.6	NM	70.1	927	30	3.2
Maytag	6.4	23.2	14.2	43.1	6.6	7.7	-24.5	227.9	3,257	151	4.6
Toro	6.0	14.0	11.1	32.1	1.9	16.1	NM	62.9	794	22	2.8
Pioneer Electronic	5.3	0.5	0.9	8.9	4.1	-13.5	-15.2	-81.0	5,181	17	0.3
Electrolux Group	4.1	3.7	5.4	57.2	3.8	24.5	-35.0	176.9	13,614	71	0.5
Sony	4.0	1.1	2.6	42.5	10.7	-6.9	-28.1	-54.3	36,686	155	0.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. ‡Results not based on US GAAP accounting. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Ordinarily, you wouldn't think of financial people as being the philosophical type. Then again, Smith Barney is no ordinary company. We've developed a very definite philosophy about investing. It's based on three guiding principles, practiced and perfected for well over a century.



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Last year the auto industry delivered 15.5 million cars and trucks, including heavy-duty trucks, up from 14.2 million in 1993. There's talk of reaching 16 million units this year and 17 million for 1996.

Will rising interest rates crimp these rosy expectations? "I personally feel 16 million is a tall order," says Alex Trotman, Ford's chairman. "I think we can take this hit [the November rate hike by the Federal Reserve], but another one after this one, I start to get worried."

But it is clear that the current auto cycle has not yet peaked. By traditional measurements, like scrappage, the good times have a couple more years to run. At less than

five times estimated 1995 earnings, there would still seem to be some life left in the auto stocks.

The story's similar in appliances, motor homes and recreational vehicles: a powerful up cycle that does not yet seem to have peaked. Recreational vehicle sales, 440,000 units, were the best since 1978. Appliance sales hit a record 51 million last year, up from 48.5 million in 1993, with a nice gain to 52 million expected this year.

Rising interest rates are the wild card in all these high-cost consumer goods industries. Which is why business people and investors alike are nervously watching the interest rate curve.

Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Black & Decker	3.1	10.0	6.6	62.4	15.3	4.7	NM	D-P	5,066	109	2.2
Matsushita Electric	2.8	0.7	1.5	27.7	4.5	-6.1	-37.6	-35.8	67,313	249	0.4
Sanyo Electric	0.8	def	0.9	33.0	4.4	-0.6	NM	D-D	15,822	-16	def
Philips Electronics	def	15.6	11.5	38.1	0.9	0.5	NM	D-P	33,844	957	2.8
Zenith Electronics	def	def	def	47.8	-12.4	10.0	NM	D-D	1,377	-47	def
Medians	4.1	10.0	6.6	38.1	4.4	6.0	NM	35.9	5,181	102	2.2
Home furnishings											
Mohawk Industries	34.8†	15.8	9.8	58.5	23.8*	31.6	40.8*	-2.0	1,426	38	2.6
Newell Co	20.9	19.3	16.7	22.4	10.1	24.4	13.9	12.1	1,972	189	9.6
Rubbermaid	20.9	19.9	19.6	1.7	10.4	8.0	13.1	9.4	2,076	224	10.8
Leggett & Platt	16.0	20.3	15.7	25.6	11.0	23.5	12.5	34.0	1,763	107	6.1
Premark International	12.1	24.7	22.3	16.2	5.0	10.0	12.2	40.9	3,340	210	6.3
La-Z-Boy Chair	11.9	12.6	10.9	16.2	6.9	13.4	2.8	12.9	839	37	4.4
Kimball International	11.4	10.1	9.5	0.2	6.5	11.3	NM	2.5	834	34	4.1
Oneida	8.9	12.1	8.6	45.9	4.4	-1.8	-15.9	113.0	461	10	2.3
Bassett Furniture Inds	8.4	8.7	8.6	0.0	NM	2.4	14.7	-6.4	515	25	4.9
Springs Industries	6.3	9.8	7.9	32.9	1.8	1.3	NM	16.5	2,058	54	2.6
Fieldcrest Cannon	4.4	15.7	8.8	57.0	-5.1	0.2	NM	23.0	1,049	29	2.8
Armstrong World Inds	3.6	17.6	14.4	20.6	-0.8	6.8	-23.9	125.7	2,672	141	5.3
Thomas Industries	3.4	7.4	6.7	36.7	3.1	1.5	-30.6	124.4	455	9	2.0
LADD Furniture	1.0	4.0	3.5	42.8	4.9	8.2	NM	0.0	569	6	1.0
Foamex International	NA	13.1	8.3	88.8	18.4	51.8	NA	NA	959	8	0.8
Interco	NA	14.9	9.6	59.8	-3.3	8.5	NA	NA	1,783	52	2.9
Medians	10.1	14.0	9.6	29.2	4.9	8.3	-6.6	14.7	1,238	38	3.5
Recreation equipment											
Harley-Davidson	16.7	13.0	12.9	0.9	10.4	21.5	NM	-40.3	1,458	42	2.9
Fleetwood Enterprises	11.3	15.4	12.8	24.0	8.0	29.2	NM	41.4	2,596	82	3.1
Anthony Industries	10.4	13.6	8.7	46.6	5.3	12.6	NM	13.1	476	12	2.6
Huffy	8.7	def	0.7	30.4	17.6	-9.6	NM	P-D	713	-3	def
Coachmen Industries	6.6	20.9	20.3	4.4	-4.1	17.2	NM	3.0	377	13	3.4
Winnebago Industries	5.4	21.2	20.1	4.7	NM	17.7	NM	86.5	452	17	3.9
Brunswick	2.0	11.9	9.6	20.5	-8.5	20.8	NM	450.0	2,581	106	4.1
Outboard Marine	def	29.8	17.1	47.4	-4.9	4.2	NM	D-P	1,078	49	4.5
Coleman	NA	15.2	10.3	41.9	19.3	24.8	NA	3.2	696	34	4.9
Medians	7.7	15.2	12.8	24.0	5.3	17.7	NM	13.1	713	34	3.4
Industry medians	8.4	15.2	11.6	31.7	3.9	11.3	NM	30.4	1,769	54	3.4
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.



Consumer nondurables

How much longer will the consumer goods companies roll in money? Answer: Until the Fed's rate hikes start to pinch.

By Nancy Rotenier

Despite the Federal Reserve governors' efforts throughout 1994 to cool the economy, unemployment remains low and consumer spending high. Spending on nondurables—everything from soap flakes to razors to tennis shoes—rose 3% last year. That was the first year that spending on consumer nondurables kept pace with the rise

in income. And both are expected to increase this year at the same rate.

Higher raw materials costs are forcing many producers to raise prices. Clorox, for instance, which has 67% of the liquid bleach market, recently announced a 6% price hike. Procter & Gamble just raised prices on its paper products

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Personal products											
Avon Products	60.2	75.7	48.6	35.9	5.3	6.1	55.5*	0.3	4,162	236	5.7
Tambrands	41.1	78.7	55.2	42.7	2.7	-0.5	NM	9.3	627	88	14.1
Gillette	36.2	33.0	21.1	26.4	9.1	11.1	12.3	-10.0	5,888	503	8.6
Johnson & Johnson	30.6	34.7	27.8	18.1	10.2	7.5	14.5	13.4	15,175	1,963	12.9
Kimberly-Clark	20.2	23.2	15.8	21.6	5.8	2.7	3.1	82.1	7,207	571	7.9
First Brands	19.9	17.4	12.8	27.5	-2.1	-1.3	NM	7.7	1,039	59	5.7
Church & Dwight	19.8	9.4	7.9	4.5	8.6	-4.6	22.9	-47.7	499	16	3.2
Stanhome	19.2	19.0	19.3	0.0	9.2	3.7	NM	53.7	770	49	6.4
Clorox	18.8	21.2	16.0	16.8	5.4	10.3	11.7	-4.6	1,864	187	10.0
BIC	17.8	21.9	21.9	0.0	8.4	3.4	14.2	12.8	460	50	10.8
Colgate-Palmolive	16.9	26.5	16.4	36.3	9.3	5.1	NM	13.2	7,432	565	7.6
Procter & Gamble	16.8	24.2	18.7	22.6	7.5	2.6	NM	417.5	30,893	2,333	7.6
Duracell Intl	15.8	19.1	13.6	20.6	8.6	10.1	NM	63.6	1,926	209	10.8
Alberto-Culver	15.0	14.9	12.4	19.1	12.0	5.9	6.6	9.0	1,216	44	3.6
Block Drug	12.9	8.8	8.6	2.5	9.6	3.1	4.5	-19.2	635	46	7.2
Service Corp Intl	12.8	14.1	7.9	50.2	7.8	22.8	12.9†	21.5	1,048	126	12.0
Carter-Wallace	10.6	def	def	2.3	5.5	7.9	-8.2	P-D	706	-27	def
Helene Curtis Inds	10.0	9.1	5.9	41.1	14.4	3.5	NM	5.8	1,224	17	1.4
Gibson Greetings	9.8	def	def	18.4	4.9	9.5	-20.5	P-D	573	-17	def
James River Corp Va	def	def	2.1	46.4	-5.6	5.8	NM	D-D	4,904	1	0.0
Scott Paper	def	def	def	59.5	NM	-2.4	NM	P-D	4,654	-235	def
Dial	NA	27.0	14.2	57.2	NM	13.0	NM	101.9	3,447	135	3.9
Paragon Trade Brands	NA	18.0	18.1	0.0	15.6	5.1	NA	-30.5	576	30	5.3
Medians	16.9	19.0	14.2	21.6	7.8	5.1	-14.3	7.7	1,224	59	6.4
Apparel & shoes											
Jones Apparel Group	55.0	26.6	26.5	3.9	26.1	14.3	38.1	8.2	600	52	8.7
Stride Rite	28.2	9.5	9.2	0.8	9.0	-5.1	15.7	-47.2	550	28	5.2
NIKE	27.2	17.2	16.9	0.7	18.0	-2.2	12.7	-15.8	3,852	291	7.6
Fruit of the Loom	25.2	15.8	9.4	54.4	13.1	14.8	21.4	-17.1	2,162	166	7.7
Liz Claiborne	23.9	10.4	10.3	0.1	14.0	-0.6	6.2	-34.8	2,192	101	4.6
Reebok International	22.5	29.3	27.6	12.7	12.6	7.5	10.6	143.4	3,174	252	7.9
Phillips-Van Heusen	21.9	13.2	10.6	40.8	12.4	8.5	19.1	-16.3	1,211	33	2.7
VF	18.7	16.4	13.4	22.7	12.3	12.4	11.6	-1.2	4,780	261	5.5
Instrument Systems	18.2	18.3	16.5	10.6	2.3	11.9	19.4*	66.7	489	30	6.1
Justin Industries	17.4	19.9	14.0	26.5	14.8	-1.7	41.1	12.2	475	38	8.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

by as much as 8%. Those firms with a dominant market share should have an easy time holding on to those price increases. But private-label companies that depend on low costs to keep their own prices low will certainly have a tougher time.

Rather than slap new stickers on old products, shaving giant Gillette is introducing a higher-priced product

within an existing category. The company just launched its SensorExcel razor in the U.S. at a 20% premium over its hugely successful (\$201 million 1994 U.S. sales) Sensor. Sensor already has a 23% share of the wet shaving and blade market in the U.S.; the new razor could add another four points of share. Gillette earns 33% on shareholders' equity, making it one of the country's most profitable companies.

Quick wits, low costs

Last winter women's shoemaker Nine West Group Inc.'s small in-house design team spotted a hot new trend: low-cut fashion boots, fancier versions of the hiking boots that have become all the rage with the Range Rover set. Within six weeks, Nine West's 25 Brazilian subcontractors were busily churning out \$65 to \$85 versions of "booties" that Gucci sells for \$345.

Based in Stamford, Conn., Nine West is one of the largest and most successful low-cost producers of high-fashion knockoff shoes in the U.S. Last year it sold \$631 million worth of women's shoes and earned \$60 million—a 36.4% return on shareholders' equity. That return was not the result of a skimpy equity base: Nine West has little debt, and over the last five years return on total capital has averaged 28.3%.

Nine West's production, all done in the region of Val do Sinos, accounts for 25% of Brazilian shoe exports. The company sells through its own 406 retail shops and 2,000 other outlets, mainly big retailers like May, Federated, Dillard and Dayton Hudson. It also does private-label work for Thom McAn, J.C. Penney and Sears.

Nine West is the brain-

Nine West's
Jerome Fisher and
Vincent Camuto
**Churning out
knockoffs for
the Range Rover
set.**

child of Jerome Fisher, 64, a rough-hewn University of Pennsylvania graduate whose first job out of college was in his father's shoe factory outside Boston. After a couple of false starts, including a short-lived joint venture with a Japanese shoe importer in the 1970s, Fisher and his partner, Vincent Camuto, now 58, started up Nine West in 1977 with \$3 million in seed capital.

Their premise: With low-cost Brazilian production, they could cater to women who wanted to look fashionable but who didn't want to pay fashionable prices. Nine West's styles of shoes—280 per season—start at \$30 and go up to \$150.



Carina Genovesi

In the last two years Fisher and Camuto have launched two brands at retail—9 & Co. (a line geared toward teenagers) and Enzo Angiolini (premium priced). Fisher knows he needs more than multiple styles. "To maintain a relationship with our customers, we need a strong retail presence," he says.

In 1993 Fisher took Nine West public, raising \$484 million. After paying down debt and reimbursing the principals, he put the balance of the money to work opening new stores—100 last year, including 36 separate stores for the new teen and premium brands. This year Nine West will open 100

more stores.

More department store exposure is on the way, too. With 500 in-store boutiques already in retailers like Bloomingdale's and Macy's, Nine West plans to launch as many as 150 more a year.

Overseas, Nine West signed a joint venture agreement two months ago with Hong Kong-based clothing maker Toppy; the partners will sell Nine West shoes in Toppy's four Episode boutiques in Hong Kong to start, and will open Nine West stores in Hong Kong, Bangkok, Shanghai and Taipei. Other joint ventures are coming in Canada, Mexico and Australia.

—N.R.

U.S. personal care and consumer product companies are busily expanding overseas—particularly in Asia. In China, Avon is pumping up its sales force, Gillette has started making toothbrushes, and P&G signed more joint ventures. Duracell is building plants in China and India, which should come on line this year. And Colgate bought India's largest toothbrush company, giving it three-quarters of that potentially huge market.

The news was mixed last year for apparel manufacturers. The absence of a strong fashion trend put women's apparel in the doldrums. Liz Claiborne, for example, showed a 34.8% earnings decline for the latest 12 months. Market expansion overseas is still difficult for U.S. apparel firms, given the fragmented boutique environment abroad.

U.S. apparel companies continue to try to capture some of the retail margin for themselves. Jones Apparel, for example, opened 40 outlet stores in 1994 and has another

50 slated for this year.

In footwear, Nike and Reebok both made comebacks, with latest 12 months' return on equity of 17.2% and 29.3%, respectively. Both companies have been exploiting the \$600 million outdoor footwear market. And while the athletic footwear makers expect big growth from foreign expansion, they are still finding ways to increase sales in the U.S. Smith Barney senior analyst Faye Landes figures Nike and Reebok could grow up to 12% annually, 5% in the U.S. alone, over the next few years.

In the textile industry, higher costs for raw materials like cotton (up 20% last year) and slow sales of women's clothing have hurt some of the smaller mills, notably Delta Woodside and Cone Mills. Many more mills, including Guilford, which depends heavily on the auto and household sectors, will face tougher times if higher interest rates choke off sales of cars and homes.

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Oxford Industries	13.0	16.6	14.9	8.3	1.9	9.2	22.4	29.4	641	20	3.1
Russell	13.0	12.7	10.5	20.6	11.2	11.3	NM	37.3	1,043	74	7.1
Kellwood	10.7	12.0	9.3	32.1	10.3	4.6	NM	8.9	1,240	37	3.0
Tultex	7.3	0.2	2.4	61.0	10.1	1.9	-14.9	-98.0	552	2	0.3
LA Gear	def	def	def	26.5	NM	11.1	NM	D-D	426	-22	def
Hartmarx	def	7.4	6.5	64.5	-8.3	-4.9	NM	75.0	722	9	1.2
Salant	def	36.9	14.0	58.2	NM	5.3	NM	D-P	421	19	4.5
Warnaco Group	NE	37.1	19.6	55.0	6.1	11.2	NM	11.4	761	60	7.8
Interco	NA	14.9	9.6	59.8	-3.3	8.5	NA	NA	1,783	52	2.9
Nine West Group	NA	36.4	28.8	18.1	8.2	20.7	NA	22.4	631	60	9.6
Medians	17.8	16.1	12.0	24.6	10.2	8.5	11.1	8.9	742	45	5.3
Textiles											
Cone Mills	26.7	21.6	13.0	21.9	5.4	1.5	NM	-17.8	780	38	4.9
Unifi	21.6	13.8	10.8	26.3	12.5	5.7	14.4	-36.0	1,419	79	5.6
Shaw Industries	21.1	18.8	14.4	33.4	16.9	12.0	17.3	15.8	2,715	132	4.9
Guilford Mills	11.1	11.5	8.4	38.0	3.9	7.5	20.5†	-13.7	704	25	3.6
Delta Woodside Inds	7.3	def	def	34.8	4.4	-10.5	NM	P-D	609	-15	def
Dixie Yarns	def	def	1.1	45.9	-2.3	23.5	-22.8	P-D	677	-3	def
Triarc Cos	def	NE	5.6	87.3	-2.8	2.8	NM	D-D	1,060	-7	def
Burlington Industries	def	20.6	8.6	55.9	NM	3.4	NM	46.0	2,127	99	4.7
WestPoint Stevens	NA	NE	def	114.9	-3.5	4.0	NA	NA	1,564	-210	def
Medians	9.2	11.5	8.4	38.0	3.9	4.0	NM	-26.9	1,060	25	3.6
Photography & toys											
Polaroid	25.9	10.7	8.2	33.6	3.9	3.5	NM	69.4	2,299	99	4.3
Mattel	23.8†	20.8	17.2	18.6	23.0*	9.4	7.1*	-18.8	2,929	185	6.3
Hasbro	14.8	13.3	12.3	13.4	17.5	0.6	21.5	-11.0	2,662	174	6.6
Tyco Toys	0.5	def	def	31.7	23.3	3.1	NM	D-D	754	-78	def
Actava Group	def	def	def	51.8	5.9	-39.6	NM	D-D	723	-95	def
Eastman Kodak	NA	16.5	8.6	52.8	2.9	1.4	NM	9.9	14,050	562	4.0
Medians	14.8	12.0	8.4	32.7	11.7	2.3	NM	-14.9	2,481	137	4.2
Industry medians	16.9	16.1	11.5	26.5	8.0	5.2	-11.5	3.0	1,136	51	5.0
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

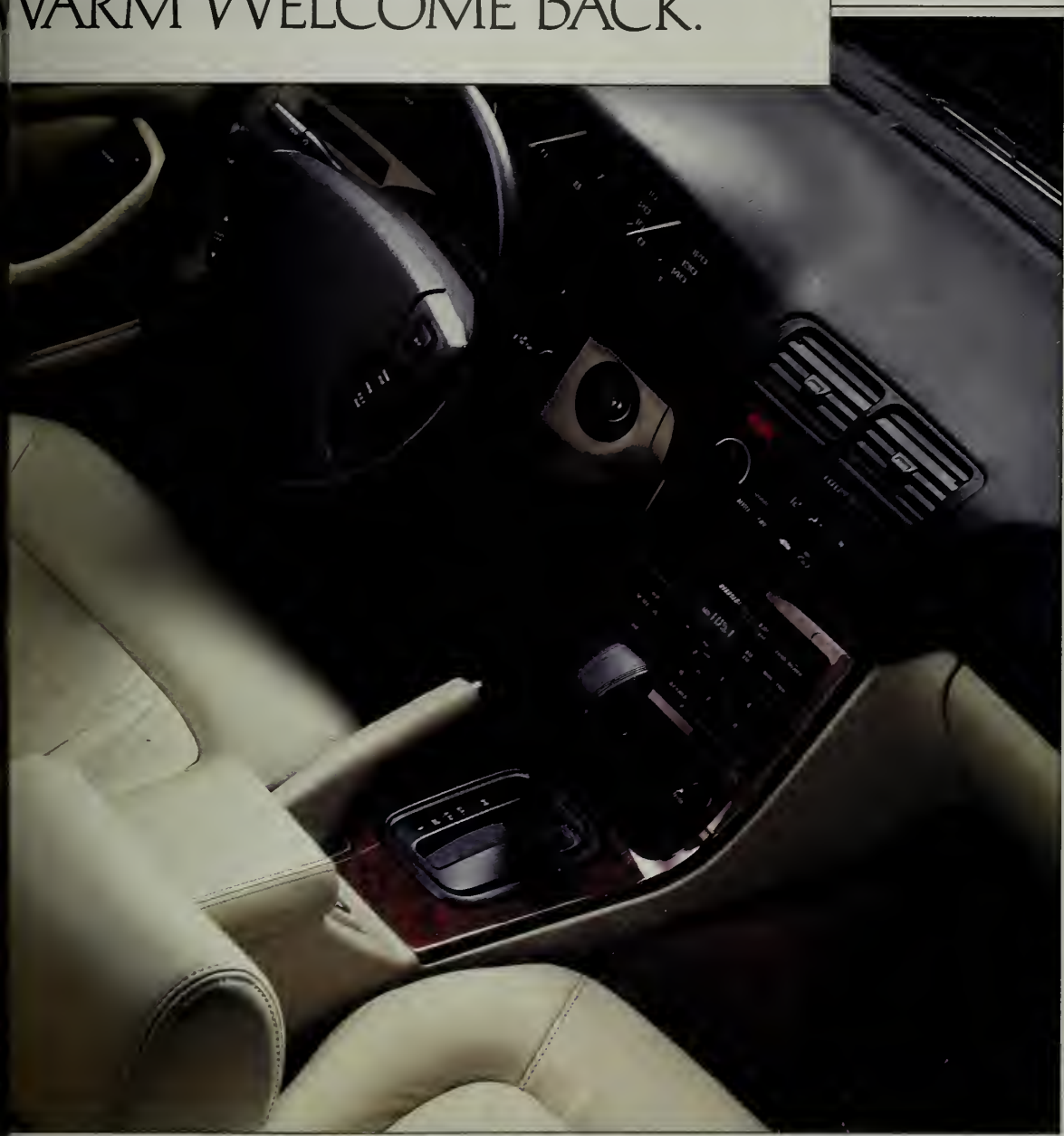
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SOME THINGS ARE WORTH THE PRICE.





Electric utilities

Can it get any more unpredictable for this historically stable industry? Count on it.

By Seth Lubove

Rising interest rates, competition, regulatory upheaval, dividend cuts, sagging stocks, unrecouped investments, mergers—it's a long way from when utilities and their dividends were as safe as U.S. Treasuries.

New competition is the biggest worry, particularly retail "wheeling," a practice that will allow customers to choose the cheapest source of power, even from a nonutility. Smelling opportunity, companies like Louis Dreyfus Group and Enron Corp. are getting into the electricity brokering business. Utilities with high fixed costs like Long Island Lighting Co. and Toledo Edison Co. will be vulnerable. Ellen Lapson, manager of electric utility research at Fitch Investors Service Inc., worries that these

companies won't be able to cut costs enough to hang on to some of their best customers. Other utilities are cutting rates. Carolina Power & Light Co. offered Du Pont price cuts at five plants. In return, Du Pont agreed not to expand its own generating facilities. Detroit Edison Co. has locked in ten-year contracts with the big three automakers by reducing rates. Georgia Power Co. last year introduced an innovative pricing program in which the utility sets prices for its largest customers one day in advance. The customers can fire up their own generators if it's cheaper.

Some utilities are merging, on the theory that economies of scale will produce savings. Absent regulatory hurdles, look for that trend to continue this year.

A success born of a failure

In decades past, Cipsco Inc., the \$853 million (latest 12-month revenues) holding company for Central Illinois Public Service Co., operated electric streetcars and sold ice. Now Cipsco is adapting to the threat of competition in the electric power generating business.

Cipsco began learning about competition as a result of a poor investment decision. Anticipating growth in demand in its market, Cipsco added a 600-megawatt coal-fired facility in 1982.

But the demand never materialized. Making a virtue of necessity, Cipsco's managers began selling the surplus power to other utilities. Thus began Cipsco's successful effort to become a profitable wholesaler of power to other utilities. Cipsco sits in the middle of a regional hub connected by high-voltage transmission lines to 12



Cipsco's Clifford Greenwalt
Wheeler-dealer.

major utilities. Those lines allow it to buy cheap nuclear power from, say, Chicago's Commonwealth Edison, then resell it at a markup to the Tennessee Valley Authority to the south—"wheeling," this form of merchandising is called. Cipsco gets even higher margins when it sells its own excess power directly to any of the connecting utilities.

The wholesaling activities are adding some growth to an otherwise humdrum business. Between 1988 and 1993, Cipsco's retail sales grew at only a 2% annual rate, compared with 14% for wholesale revenues. Wholesaling now accounts for 24% of electric reve-

nues, retail the balance.

Cipsco Chief Executive Clifford Greenwalt understands that in a competitive environment for a commodity like electricity, the low-cost producer wins. Cipsco's average generation cost of \$251 per kilowatt of capacity is second lowest among utilities in Illinois, and 64% lower than regional competitors that have surplus power to sell. But Greenwalt is pushing Cipsco's cost structure lower. He figures Cipsco can reduce current staff by about 14%.

Doesn't Cipsco's relatively small size—16th in sales out of 31 Midwest utilities—put it at a disadvantage? Greenwalt thinks not. "We're in a position of having adequate capacity at lower cost, so we're not forced to look for someone to merge with," he says, adding: "Our basic philosophy is we're going to have to change because competition will force us to change."

—S.L.

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Northeast											
New England Electric	14.0	14.6	7.4	37.1	8.6	0.2	NM	31.3	2,245	224	10.0
Pennsylvania P&L	13.6	12.2	5.6	35.3	1.7	1.8	1.5	-8.5	2,767	325	11.8
Consolidated Edison	12.4	13.8	8.6	35.2	3.6	2.2	1.0	15.1	6,395	734	11.5
Potomac Electric	12.1	10.4	6.1	47.8	5.5	5.8	-3.1	-16.8	1,926	220	11.4
Orange & Rockland	11.9	9.6	6.0	37.9	13.8	7.5	-0.4	-19.5	1,016	40	3.9
Allegheny Power	11.9	11.4	6.4	38.1	1.2	5.3	-0.9	0.3	2,450	223	9.1
General Public Utils	11.8	5.4	4.1	35.6	5.3	2.6	NM	-57.2	3,667	140	3.8
Atlantic Energy	11.7	11.7	6.7	34.6	5.2	6.0	NM	4.6	911	98	10.7
Pub Svc Enterprise	11.7	12.1	6.7	37.3	4.9	4.6	NM	-1.6	5,910	621	10.5
Delmarva Power & Lt	11.4	10.8	6.0	32.5	3.9	6.2	NM	-12.6	1,004	103	10.3
Central Hudson G&E	11.2	11.1	6.3	34.1	3.3	-0.2	1.6	-3.5	522	52	9.9
Commonwealth Energy	11.1	14.9	7.7	44.4	5.7	4.2	NM	12.7	992	52	5.2
Northeast Utilities	11.0	13.1	5.9	43.1	9.5	0.9	-2.7	69.0	3,646	298	8.2
PECO Energy	10.9	9.2	5.1	36.2	4.6	0.8	NM	-28.8	4,063	437	10.8
Central Maine Power	10.8	7.8	4.9	34.8	6.9	4.0	-1.6	-19.4	918	53	5.8
NY State E&G	10.5	9.0	5.6	35.2	6.0	8.0	-4.8	1.5	1,879	166	8.8
Boston Edison	10.4	12.3	6.5	43.2	4.1	3.0	12.0†	0.0	1,541	124	8.0
Long Island Lighting	10.2	10.4	5.4	45.7	5.5	9.5	-1.5†	-6.8	3,078	291	9.4
Rochester G&E	10.0	8.7	5.3	36.3	3.5	8.1	-2.9	-22.6	1,013	71	7.0
Baltimore G&E	9.6	10.1	6.0	38.1	7.6	7.9	NM	-5.7	2,835	307	10.8
American Water Works	9.6	8.4	5.9	48.5	7.3	9.8	6.3	2.3	765	76	9.9
United Illuminating	9.3	8.6	4.8	45.0	2.6	-0.1	-7.6†	-22.2	656	40	6.1
Niagara Mohawk Power	8.9	10.3	6.2	41.8	7.4	5.5	17.0	-0.6	4,122	285	6.9
Medians	11.1	10.4	6.0	37.3	5.3	4.6	-2.9	-3.5	1,926	166	9.4
North central											
Detroit Edison	18.5	12.9	6.5	39.4	1.7	0.4	6.3*	-16.7	3,586	455	12.7
Union Electric	13.9	13.3	6.8	31.4	0.4	-1.0	2.1	-6.5	2,061	307	14.9
Nipscos Industries	13.3	14.7	7.0	37.3	1.5	2.2	14.1	6.1	1,713	164	9.6
DPL	13.3	13.8	7.4	35.6	3.0	6.2	NM	3.5	1,214	148	12.2
WPS Resources	13.1	11.8	7.4	29.7	2.6	0.8	3.0	-17.5	682	54	7.9
WPL Holdings	12.9	12.7	7.7	31.5	4.5	10.9	NM	17.4	823	74	9.0
Wisconsin Energy	12.7	10.3	6.7	42.4	1.4	8.2	-1.2	-8.0	1,759	173	9.8
IES Industries	12.4	11.9	6.8	37.6	5.3	1.7	NM	-0.8	796	68	8.6
CipSCO	12.4	13.2	7.0	31.3	3.5	2.4	2.2	0.8	853	84	9.8
DQE	12.2	12.0	5.5	35.4	2.3	7.1	8.1	0.7	1,272	147	11.6
Western Resources	12.0	12.3	6.1	33.8	10.3	-4.8	3.1	-1.0	1,769	189	10.7
CINergy	11.9	def	2.6	40.0	2.6	9.2	-33.2*	P-D	1,845	-13	def
Ipalco Enterprises	11.8	11.9	7.1	35.3	1.9	3.4	-4.4	21.0	685	93	13.7
No States Power	11.5	12.8	7.1	29.5	3.5	6.4	-2.8	37.4	2,496	248	10.0
Kansas City P&L	11.3	11.7	5.5	30.1	3.0	2.8	NM	-1.2	877	104	11.9
Minnesota Power & Lt	10.9	7.3	5.1	38.6	1.8	0.4	-2.7	-25.0	508	52	10.2
Iowa-Illinois G&E	10.8	11.1	5.0	41.6	0.9	3.3	-5.1	2.7	564	60	10.7
American Electric	10.7	13.0	6.7	49.2	1.0	6.2	-9.1	48.0	5,553	541	9.7
CILcorp	10.6	9.9	5.5	31.4	5.5	3.8	-6.0	7.0	613	34	5.5
Midwest Resources	10.1	9.5	5.4	37.3	5.0	-5.8	-6.7	-16.2	1,089	65	6.0
Ohio Edison	6.8	0.1	2.5	40.6	2.3	1.3	NM	-98.9	2,390	25	1.0
Unicom	3.0	def	2.1	40.5	NM	-15.4	-33.2	P-D	5,286	-66	def
Illinova	def	9.9	5.4	51.8	2.3	2.6	NM	D-P	1,605	133	8.3
Centerior Energy	def	def	def	45.0	3.5	-2.7	NM	P-D	2,429	-860	def
CMS Energy	def	18.1	7.3	53.3	2.7	6.4	NM	D-P	3,641	175	4.8
Medians	11.8	11.9	6.5	37.3	2.6	2.6	-6.0	-0.8	1,605	93	9.7
Southeast											
TECO Energy	15.1	14.9	7.8	37.6	4.3	7.3	3.9	10.9	1,349	165	12.3
KU Energy	14.2	12.8	7.3	31.7	2.0	5.8	1.2	-1.9	629	77	12.3
Scana	13.9	11.9	6.5	40.9	2.4	5.3	NM	-7.8	1,307	161	12.3
Duke Power	13.1	14.2	7.6	30.4	3.3	1.8	4.2	6.0	4,300	666	15.5

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Finally, a few utilities figure if they scream loudly enough, the competition might go away. Southern California Edison Co. and San Diego Gas & Electric Co. say they'll be saddled with so-called stranded investment—plants that were approved to serve a monopoly market but that will become unnecessary if customers can leave. State

governments like New York's that use utilities as tax collectors may be most receptive to such arguments and try to bar competition. But if they do, they will only help drive out what little industry is left in the state. About 25 cents of every dollar New York City's Consolidated Edison collects from customers is a tax of one kind or another. ■

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Carolina Power & Lt	13.1	11.8	6.3	32.3	4.6	-0.1	13.1	-3.2	2,896	331	11.4
Southern Co	12.8	12.2	6.3	33.4	3.0	-1.0	4.2	-8.2	8,327	946	11.4
LG&E Energy	12.1	14.6	7.3	34.0	6.5	-1.2	2.4	18.8	880	106	12.1
Dominion Resources	12.1	11.9	6.8	38.8	4.5	5.3	NM	-5.7	4,522	531	11.7
Florida Progress	11.5	10.8	6.1	38.7	2.9	16.5	-2.3	0.0	2,689	201	7.5
FPL Group	7.3	12.5	7.1	37.0	-3.3	0.2	NM	21.3	5,366	528	9.8
Medians	12.9	12.4	6.9	35.5	3.1	3.5	1.8	-1.0	2,793	266	11.9
South central											
Southwestern Pub Svc	14.8	14.1	8.3	31.6	1.3	4.2	-1.7	-2.1	843	102	12.1
Oklahoma G&E	13.1	12.5	6.8	31.5	5.5	-5.2	-4.0	-10.5	1,375	115	8.4
Central & So West	11.9	9.6	5.3	34.1	8.3	-0.6	NM	-27.5	3,672	283	7.7
Houston Industries	10.5	12.4	6.2	38.6	4.6	-3.5	-2.0	7.9	4,139	425	10.3
Entergy	9.7	6.5	4.1	38.7	4.3	33.2	1.5†	-33.0	5,876	395	6.7

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

HAPPY

(What else would you expect from a company?)

You know what you're doing next quarter. But next year? Or the year after? Or the year after and use information to see where they need to go, and to get there. With that in mind, we'd

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos. %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Texas Utilities	5.8	7.7	5.3	41.5	5.3	6.0	-16.0	10.2	5,683	508	9.0
El Paso Electric	def	NE	1.4	107.6	NM	3.9	NM	D-D	557	-44	def
Medians	10.5	9.6	5.3	38.6	4.6	3.9	-4.0	-10.5	3,672	283	8.4
Western											
San Diego G&E	14.8	8.9	5.5	38.0	-1.6	2.8	2.9	-37.3	1,984	143	7.2
Public Service Colo	13.2	13.4	7.5	36.6	3.2	3.0	NM	24.8	2,043	172	8.4
Pacific G&E	12.6	12.4	6.7	39.9	6.5	0.8	6.3*	5.6	10,516	1,112	10.6
SCEcorp	12.6	11.5	6.0	36.2	4.7	3.2	-3.7	4.8	8,165	685	8.4
Puget Sound P&L	12.4	8.7	5.8	35.7	6.4	9.4	NM	-21.0	1,178	119	10.1
Montana Power	11.5	11.7	7.4	27.5	8.6	1.8	8.2	11.6	1,087	118	10.9
PacifiCorp	7.9	12.5	6.6	38.2	-1.4	2.8	-1.6	500.0+	3,496	455	13.0
Portland General	7.7	13.4	6.4	32.5	4.2	3.3	NM	8.4	963	108	11.2
Hawaiian Electric	5.4	6.6	5.0	36.8	8.2	0.7	-8.8	17.1	1,150	55	4.8
Pinnacle West	3.6	11.0	6.0	43.5	-2.5	3.5	NM	1.5	1,787	181	10.1
Public Service NM	def	def	0.5	52.9	NM	6.0	NM	D-D	915	-38	def
Tucson Electric	def	NE	2.4	95.0	1.8	11.5	NM	D-P	730	9	1.2
Medians	9.7	11.2	6.0	37.4	3.7	3.1	NM	7.0	1,483	131	9.2
Industry medians	11.5	11.7	6.2	37.3	3.5	3.3	-4.0	-0.8	1,769	147	9.8
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

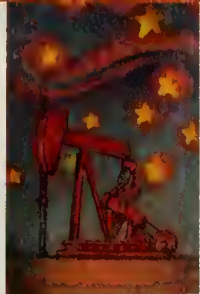
Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

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EDS



Energy

For 1995 the best kind of energy company to be is one with operations outside energy, especially in chemicals.

By Toni Mack

About the only good news for the energy folks last year was that the long depression in chemicals ended. With prices and volumes up, chemical division earnings at Amoco more than doubled in 1994's first nine months. Look for strong chemical profitability to continue in the year ahead. Besides Amoco, companies with big chemicals divisions include Exxon, Royal Dutch, Occidental and Phillips.

But the basic energy business was pretty weak and will probably remain so in 1995. With oil and natural gas prices languishing, the 87 energy companies tracked in this issue are near the bottom in recent sales and earnings growth. (In each category one other industry was worse.)

Thomas Burns, Chevron chief economist, predicts oil prices will rise in 1995, but to no more than \$20 per barrel from an average \$17.20/barrel last year. His reasoning:

Saudi Arabia is thirsty for cash, and world petroleum demand is growing. This bodes well for companies whose oil output is a big part of their total product mix, like British Petroleum and Atlantic Richfield.

U.S. refiners' margins will be hit if the refiners cannot recoup the billions they've been obliged to spend to meet new clean-gasoline standards. "We won't know for several months whether the market will let us pass the costs through," says Shell Oil President Philip Carroll. "But the industry isn't healthy enough to absorb them."

For natural gas, a cold winter would tighten prices, but only temporarily (*FORBES*, Dec. 19, 1994). Producers like Burlington Resources and Apache Corp. are coping with generally flat prices by increasing volume. Enron and MCN Corp. are getting substantial earnings gains from diversi-

Shipshape

"In hindsight, hell wasn't so bad," draws John Laborde. The Cajun-born oil service veteran is talking about successfully pulling Tidewater Inc. through the harsh flames of the 1980s oil bust.

Based in New Orleans, Tidewater provides supply vessels and tugboats to ferry men and equipment to offshore oil rigs. It also rents natural gas and air compressors to the gas, refining and other industries. It survived where competitors failed for one simple reason: Laborde, now 71, refused to load the company with debt during the 1970s. Even now Tidewater's debt-to-capital ratio is a low 20%.

While overextended competitors were going bankrupt, Laborde cut costs and prices and sent Tidewater's boats to work for oilmen develop-



Tidewater founder John Laborde

"In hindsight, hell wasn't so bad."

Jackson Hill/Southern Lights

ing and maintaining already discovered oil and gas reserves. "When the business gets tough, the industry may slow down exploration," says Laborde. "But nobody shuts down a producing oilfield."

In 1992 Laborde began building Tidewater again, buying a couple of boat industry competitors. Last year he spent \$240 million buying the compressor businesses of Haliburton and Mitchell Energy. Oilmen rent these

compressors to boost natural gas pressure to pipeline levels. There's no glamour here but lots of cash—about 40 cents for every dollar of revenue. Thanks to his fiscal conservatism, Laborde had no trouble raising acquisition capital. "I can look every creditor in the eye and say I paid back everything I owed," he says.

Three months ago Laborde retired and turned Tidewater's rudder over to William O'Malley, who

was recruited from the chief executive position at Sonat Offshore Drilling. "I wasn't interested until I realized what an opportunity there is here," says O'Malley. "Every month Tidewater throws off \$7 million to \$10 million in cash after taxes and capital spending."

In the last 12 months, Tidewater earned \$45 million, or 85 cents a share, on \$523 million in revenues, for the best net margin—8.5%—in the oil service business. Robinson Humphrey analyst Thomas Escott expects Tidewater to earn \$75 million, or \$1.40 share, in fiscal 1995, ending Mar. 31, 1996.

Laborde? He remains on Tidewater's board, but he's also combing through the business propositions he's gotten since retiring. "I feel proud of Tidewater," he says, "but a little sad to be leaving."

—T.M.

fied subsidiaries, where regulators can't limit profits. The search for unregulated niches prompted Panhandle Eastern and KN Energy to buy companies that own unregulated pipeline networks connecting individual wells to a larger pipeline. Western Gas Resources, a potential takeover target, also has substantial unregulated pipelines.

Among oilfield service companies, nonrecurring gains helped Dresser Industries and Baker Hughes. But operating earnings were anemic. "Last year was ho-hum, and 1995 won't be any better for the industry," sighs Baker Hughes Chairman James Woods. He predicts the industry will cut more staff and sell more assets this year. ■

Energy
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D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

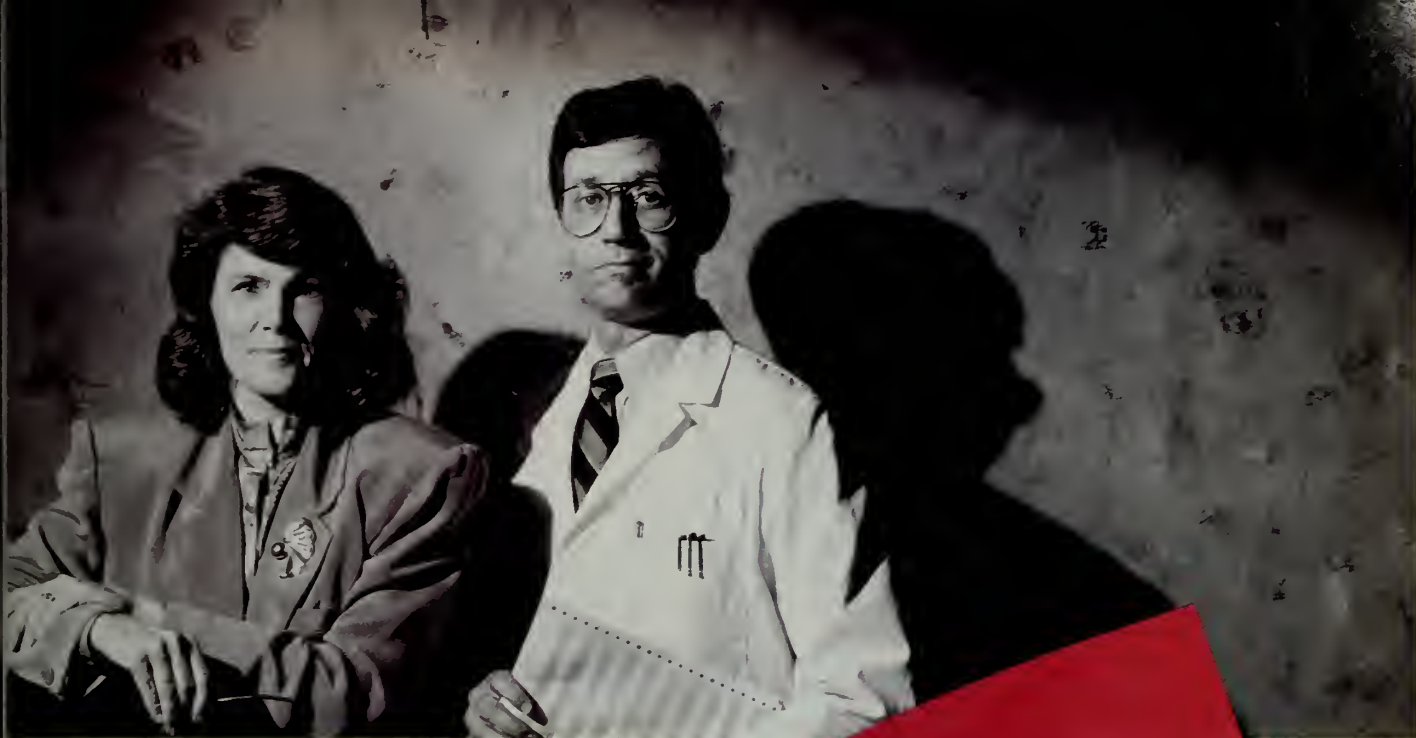
Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Energy Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Oilfield services											
Schlumberger	17.8	11.5	11.0	7.7	7.7	1.1	10.0	-17.8	6,662	505	7.6
Dresser Industries	9.9	31.4	22.1	23.6	7.2	21.5	NM	283.6	4,942	351	7.1
Tidewater	6.0†	7.9	7.8	0.3	6.7	3.0	NM	50.9	523	45	8.5
Baker Hughes	5.9	7.7	6.5	33.9	NM	-7.3	NM	150.0	2,505	131	5.2
Halliburton	def	0.4	1.4	26.1	5.1	-8.9	NM	D-P	5,784	8	0.1
Camco International	NA	8.0	6.6	18.2	10.9	5.9	NA	NA	606	29	4.7
Western Atlas	NA	def	def	29.8	9.8*	NA	NM	NA	2,210	-127	def
Medians	6.0	7.9	6.6	23.6	7.2	2.0	NM	150.0	2,505	45	5.2
Gas producers & pipeliners											
Sonat	15.8	12.4	9.8	36.1	NM	13.5	21.6	-34.1	1,869	169	9.1
Western Gas Resources	15.4*	1.3	3.1	47.0	46.7	27.4	38.4	-90.7	1,072	14	1.3
Enron	13.9	18.4	6.5	38.9	NM	-20.2	18.9	36.1	8,619	449	5.2
Tejas Gas	10.7	10.3	7.1	54.7	29.4	69.2	10.5	39.6	1,111	30	2.7
Williams Cos	10.6	13.7	8.2	36.9	9.2	-27.7	13.7	-9.3	1,878	235	12.5
Panhandle Eastern	6.9	10.5	6.6	37.8	5.9	-1.7	NM	-5.2	2,292	176	7.7
Mitchell Energy	5.6	2.0	1.9	55.3	10.7	-3.6	-8.0	-76.3	941	16	1.7
Coastal	3.0	10.1	6.0	50.8	4.3	2.9	NM	D-P	10,412	227	2.2
Transco Energy	def	def	5.2	65.0	NM	-0.3	NM	P-D	2,922	15	0.5
El Paso Natural Gas	NA	12.5	7.4	43.1	-4.0	-2.8	NA	3.0	875	88	10.1
USX-Delhi	NA	def	def	22.4	NM	7.5	NA	NA	568	-30	def
Medians	10.6	10.3	6.5	43.1	4.3	-0.3	10.5	-7.2	1,869	88	2.7
Gas distributors											
Nicor	16.2	16.0	9.7	40.0	1.4	2.9	1.6	2.5	1,752	112	6.4
MCN	14.6	18.0	9.0	49.4	3.0	7.2	NM	42.8	1,581	85	5.4
Piedmont Natural Gas	13.3	12.8	7.6	46.8	5.6	4.7	3.2	-7.9	579	37	6.3
Washington Gas Light	12.3	12.8	8.4	35.9	4.7	2.3	2.9	8.0	915	60	6.6
Peoples Energy	12.0	11.8	7.4	40.5	1.7	1.6	-1.5	0.9	1,279	74	5.8
Laclede Gas	11.6	11.6	7.6	35.5	NM	4.0	2.9	-11.8	524	22	4.2
Brooklyn Union Gas	11.1	11.9	7.5	39.9	6.7	11.0	2.9	6.9	1,339	87	6.5
Atlanta Gas Light	10.6	10.8	7.7	41.0	4.7	6.2	3.9	8.3	1,200	63	5.3
UtiliCorp United	10.3	10.2	6.9	45.1	19.2	0.7	-3.7	13.1	1,555	94	6.1
Assoc Natural Gas	9.7	8.7	7.4	45.8	50.0	52.8	58.2*	-11.6	2,017	19	0.9
Wicor	9.2	12.4	8.8	30.9	1.7	7.4	NM	13.5	892	34	3.9
UGI	8.9	9.2	6.8	45.0	16.9	3.5	-8.2	6.2	757	38	5.0
Southwest Gas	3.9	5.8	4.3	56.5	-3.7	2.3	-25.1	11.8	709	20	2.9
Eastern Enterprises	3.6	def	1.9	42.3	9.9	3.8	NM	P-D	1,147	-6	def
Medians	10.9	11.7	7.5	41.6	4.7	3.9	0.1	6.6	1,174	49	5.3
Integrated gas											
Questar	13.0	18.7	11.9	30.4	6.5	-0.4	21.8	37.7	654	118	18.0
Equitable Resources	11.7	9.6	6.2	27.1	20.0	38.2	7.8	-10.2	1,398	70	5.0
National Fuel Gas	11.0	11.1	7.5	29.9	5.6	11.9	4.0	3.7	1,141	82	7.2
Oneok	10.1	9.8	6.1	38.6	5.0	0.4	1.7	-6.3	792	36	4.6
KN Energy	9.8†	3.0	3.9	34.5	17.4	10.2	NA	-62.6	1,106	13	1.2
Consol Natural Gas	9.4	9.0	5.9	27.6	2.7	11.3	-2.0	-3.2	3,278	196	6.0
Enserch	4.0	5.8	4.6	39.6	-4.8	-15.1	NM	D-P	1,898	49	2.6
NorAm Energy	1.8	2.3	5.3	61.7	8.0	-1.8	NM	116.7	2,956	23	0.8
Columbia Gas System	def	18.7	8.3	47.9	NM	-7.3	NM	42.1	3,074	242	7.9
Pacific Enterprises	def	13.7	7.7	39.9	-16.2	-6.0	NM	24.3	2,772	169	6.1
Trident NGL Holding	NA	def	3.3	63.6	3.8	NA	NA	NA	533	-4	def
Medians	9.6	9.6	6.1	38.6	5.0	0.0	-2.0	14.0	1,398	70	5.0
Industry medians	9.1	8.9	6.6	39.6	4.5	1.1	-23.4	0.9	1,581	55	2.8
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

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Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



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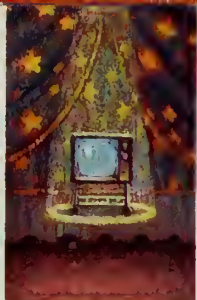
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Entertainment & information

A lot happened in the entertainment business last year. But a lot also didn't happen.

By Lisa Gubernick

Disney's Frank Wells died and Jeffrey Katzenberg quit. Sumner Redstone's Viacom bought Paramount. Peter Guber bailed out at Sony, which later took a \$2.7 billion writeoff on its movie business. Lew Wasserman and Sid Sheinberg talked about buying MCA back from Matsushita.

But the real story was what didn't happen. Barry Diller didn't get CBS. TCI and Bell Atlantic didn't merge. None of the three networks was sold, and the cable systems never teamed up with the regional phone companies. The full-scale launch of Time Warner's much ballyhooed interactive project in Orlando has been delayed. Ditto AT&T's interactive TV deal with Viacom in Castro Valley, Calif.

Merrill Lynch entertainment analyst Jessica Reif sums up 1994 this way: "It was the year of the undeal."

But if investment bankers were in a funk, moviemakers weren't. In Hollywood, box office revenue for 1994 could hit \$5.5 billion, an alltime high. Paramount's *Forrest Gump* and Disney's *Lion King* are neck-and-neck for the year's biggest hit. Each is approaching \$300 million.

The baseball strike cut the four TV networks' share of the prime-time audience from 74% to 72%. Even so, network

ad revenues rose 9% in the first half of 1994. Local stations' ad revenues did even better, climbing 20% in some markets. Higher interest rates are the only threat to another banner year. The Federal Communications Commission is thinking about raising the number of TV stations that companies may own from today's limit of 12—good news for networks.

Cable was hamstrung by federal regulation that froze rates, flattening cash flow. Expect improvements in 1995: New regulations allow operators to increase fees as they add channels. Likely winners this year: Time Warner, Continental and John Malone's TCI. The latter boosted its stock by announcing a new capital structure to create currency and fund new ventures (*FORBES*, Dec. 19, 1994). Time Warner is said to be considering something similar.

Newspapers seem to be picking up. Ad revenues are up 7.5% over last year, lineage up nearly 4%. Profitability is up 25%, the biggest boosts coming from publishers like A.H. Belo (*Dallas Morning News*) and Central Newspapers (*Arizona Republic* and *Phoenix Gazette*), based where the economic recovery is the strongest.

Country music's biggest star

Edward L. Gaylord may be the biggest beneficiary of the country music boom. Over the last decade Gaylord and his chief executive officer, Earl (Bud) Wendell, have transformed Gaylord Entertainment Co. from a motley assortment of television and cable stations to a \$690 million (estimated 1994 sales) country music empire. Its holdings include The Nashville Network, Country Music Television, the Grand Ole Opry, two amusement parks and a hotel. Market cap: \$1.8 billion. Gaylord owns 20%.

"Country music did not have all this growth until we created TNN and



Bud Wendell at Gaylord's Wildhorse Saloon

From a few TV stations to a country music empire.

CMT," Wendell says. He believes Gaylord's growth will come from those networks. Last year CMT expanded its European broadcasts and began

broadcasting in Asia.

Wendell is looking for other growth areas outside music. In December 1993 Gaylord Entertainment paid \$60 million for a minority interest in the Bass Pro Shops, one of the largest purveyors of outdoor sports equip-

ment. Wendell figures it will blend nicely with TNN, which carries programming on outdoor sports like boating, fishing and hunting.

There were reports in November that Gaylord might be sold, but the company strongly denied those rumors.

"Which other companies in the U.S. have the power of a television network coupled with the tourism and entertainment products we have?" asks Gaylord's chief financial officer, Terry London. "The only one I can think of is Disney. We're not as big, but in some ways it's easier to make a business with a \$2 billion market capitalization grow than one with \$22 billion."

—L.G.

Entertainment & information	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Broadcasting & cable											
King World Prods	37.7	22.0	22.4	0.0	3.3	1.3	4.6	-12.1	481	88	18.4
CBS	25.6	23.0	15.6	28.0	4.7	13.5	NM	-10.1	3,899	283	7.3
Gaylord Entertainment	14.0	30.7	11.1	43.9	8.5	6.4	NM	128.2	669	70	10.5
Capital Cities/ABC	12.2	16.7	14.1	12.5	3.2	10.8	NM	46.1	6,160	606	9.8
Viacom	6.7	5.9	7.4	60.3	9.5	157.6	NM	-44.2	5,116	187	3.7
Tele-Communications	def	1.5	3.2	57.6	10.7	10.6	NM	D-P	4,476	42	0.9
Comcast	def	NE	3.4	92.7	22.0	7.2	NM	D-D	1,353	-68	def
Cablevision Systems	NE	NE	def	212.0	6.0	17.1	NM	D-D	764	-266	def
Multimedia	NE	NE	23.1	108.2	7.7	0.6	21.7	6.4	632	89	14.1
Turner Broadcasting	NE	0.0	5.6	76.4	18.4	30.8	NM	-53.8	2,519	34	1.3
Medians	def	3.7	9.3	59.0	8.1	10.7	NM	-11.1	1,936	79	5.5
Movies											
AMC Entertainment	27.5	8.9	8.6	67.2	2.7	8.9	NM	-39.0	565	13	2.2
Walt Disney	19.2	21.7	16.2	19.6	16.2	17.9	5.9	65.9	10,055	1,110	11.0
Handleman	13.8	10.7	9.2	24.0	12.8	-1.7	NM	-14.5	1,085	31	2.9
Time Warner	def	def	2.7	69.2	10.7	-15.3	NM	D-D	7,069	-96	def
Medians	16.5	9.8	8.9	45.6	11.7	3.6	NM	-26.8	4,077	22	2.6
Publishing											
Scholastic	33.6*	15.4	15.6	32.7	15.5	13.6	59.7*	-17.5	641	29	4.5
Reader's Digest Assn	33.1	28.8	27.5	1.1	9.9	1.9	13.0	-26.4	2,880	221	7.7
Pulitzer Publishing	31.7	26.5	13.3	51.8	1.1	15.1	NM	21.1	473	32	6.8
Dun & Bradstreet	23.4	40.3	37.3	0.0	2.1	2.7	NM	-19.1	4,807	446	9.3
Gannett	20.9	23.0	15.9	32.4	1.2	4.6	1.9	16.0	3,759	445	11.8
News Corp	17.9	16.3	8.7	49.5	9.6	8.8	NM	105.0	8,733	738	8.5
Washington Post	15.6	14.8	13.9	4.3	1.2	4.2	-10.3	10.7	1,559	160	10.3
Knight-Ridder	14.5	13.6	10.9	23.2	2.5	7.0	-5.6	22.1	2,588	169	6.5
EW Scripps	14.0	18.4	13.4	10.7	NM	-1.0	12.4	22.5	1,206	159	13.2
Banta	13.8	15.3	13.4	17.4	6.5	11.9	7.8	14.1	760	46	6.0
American Greetings	13.3	13.1	12.0	5.6	7.7	5.8	17.8	15.2	1,810	138	7.6
AH Belo	12.7	16.8	8.8	43.5	6.9	10.0	25.4	35.8	592	58	9.9
RR Donnelley & Sons	12.6	14.1	10.3	28.0	9.3	10.6	-1.6	50.9	4,741	260	5.5
Houghton Mifflin	12.2	28.0	25.1	27.1	4.7	5.0	NM	220.0	480	60	12.4
Tribune	10.7	16.6	14.3	8.6	-4.2	4.6	NM	35.6	2,084	231	11.1
Central Newspapers	10.6	14.7	14.3	0.8	1.5	10.7	-3.1	49.1	506	43	8.5
McGraw-Hill	10.5	24.0	13.2	44.3	3.9	31.3	NM	500.0+	2,746	198	7.2
Times Mirror	9.9	14.6	11.0	25.4	2.4	-7.7	-15.7	198.6	3,419	282	8.3
Dow Jones	9.5	11.4	10.4	14.2	3.4	7.5	-15.0	30.8	2,037	170	8.4
McClatchy Newspapers	9.0	11.2	9.8	0.0	4.7	3.7	NM	43.3	464	44	9.4
Meredith	8.4	12.9	8.4	27.6	NM	5.6	NM	96.8	817	34	4.2
Commerce Clearing	6.5	19.9	19.6	2.6	NM	-1.4	-30.7	D-P	569	20	3.5
Media General	3.8	50.4	22.3	30.0	-3.8	3.8	15.7	370.7	616	114	18.5
New York Times	3.7	8.8	7.5	19.1	2.4	29.0	NM	285.3	2,388	149	6.2
Harcourt General	def	16.5	9.4	48.2	7.0	-8.6	NM	-3.6	3,259	151	4.6
Western Publishing	def	def	def	49.7	4.4	-15.5	NM	D-D	547	-24	def
Valassis Commun	NE	NE	27.2	388.1	5.3	-12.8	NM	-94.8	546	3	0.6
Medians	12.2	15.4	13.3	25.4	3.4	5.0	-15.7	30.8	1,559	149	7.7
Advertising											
Interpublic Group	21.5	23.7	18.5	27.8	10.3	2.7	12.8	10.5	1,814	135	7.5
Omnicom Group	21.5	25.1	18.1	38.8	11.2	15.0	10.9	14.2	1,680	101	6.0
ADVO	16.3	19.7	21.3	0.0	10.2	7.1	NM	400.0	975	25	2.6
Grey Advertising	11.4	11.6	13.2	17.9	9.4	2.2	NM	-8.5	589	17	2.9
Saatchi & Saatchi	def	NE	def	188.6	NM	7.9	NM	D-D	6,710	-34	def
WPP Group	NA	def	1.0	36.5	16.9	12.3	NM	D-D	2,248	-27	def
Medians	16.3	15.7	15.7	32.1	10.3	7.5	NM	1.0	1,747	21	2.8
Industry medians	12.2	14.8	13.2	28.0	5.3	7.0	NM	15.2	1,680	88	6.8
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Financial services

What the Federal Reserve giveth
it also taketh away—
especially from Orange County.

By Matthew Schiffrin

Falling off a log was harder than making money in banking in 1992 and 1993. With the yield curve sloping steeply upward, even the dimmest banker could borrow from depositors at anemic short-term interest rates, invest in long-term Treasuries and pocket the spread. With ultralow short rates, the Federal Reserve governors saved the banking system and fueled a bull market in stocks and bonds; brokerages and mutual fund houses coined money.

Now things are tougher. The Fed hiked rates six times—by 250 basis points—in 1994, greatly flattening the yield curve. Most bank stocks fell 15% to 20% from their highs in late August; savings and loans stocks were down even more. In December the unprecedented bankruptcy filing by Orange County, Calif., which lost an estimated \$1.5 billion speculating on interest rates and derivatives, cast a pall of uncertainty over financial assets.

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Multinational banks											
Bankers Trust NY	22.0	17.4	9.1	54.9	2.8	3.3	14.1†	-12.4	7,562	793	10.5
JP Morgan & Co	18.7	14.4	10.3	39.2	6.0	4.1	25.4†	2.5	11,824	1,414	12.0
BankAmerica	15.2	13.0	8.3	45.4	9.3	0.1	9.9	7.7	15,996	2,081	13.0
Republic New York	14.0	14.5	6.7	65.2	NM	5.7	9.0	14.1	2,451	331	13.5
First Chicago	10.2	17.4	12.6	33.3	-2.4	1.2	NM	-17.7	4,837	689	14.3
Chemical Banking	8.8	14.0	9.4	44.2	-6.3	2.9	NM	-4.9	12,531	1,462	11.7
Citicorp	5.8	24.8	13.3	49.3	-1.9	1.6	NM	89.2	32,457	2,955	9.1
Chase Manhattan	4.7	17.5	11.2	37.3	-3.4	4.1	NM	465.5	11,599	1,289	11.1
Bank of Boston	3.0	16.0	10.2	43.0	NM	-10.8	NM	83.3	5,697	424	7.4
Medians	10.2	16.0	10.2	44.2	-2.4	2.9	NM	7.7	11,599	1,289	11.7
Regional banks											
Norwest	20.0	21.0	12.0	60.1	16.7	14.6	12.8	18.0	5,789	771	13.3
State Street Boston	19.1	18.0	16.9	9.8	10.3	20.1	13.7	13.4	1,772	202	11.4
Fifth Third Bancorp	18.4	18.8	16.3	11.9	11.1	17.5	13.6	16.5	1,107	232	21.0
Firststar	18.3	17.6	16.6	9.2	9.4	2.3	6.9	3.6	1,234	204	16.5
Northern Trust	17.9	16.4	9.4	43.7	3.2	12.5	6.8	12.5	1,403	185	13.2
Banc One	17.5	15.8	14.3	19.1	22.0	14.1	13.6	8.8	7,846	1,227	15.6
Huntington Bancshs	16.9	19.1	14.4	40.1	9.0	0.9	11.8	13.0	1,478	253	17.2
SunTrust Banks	16.8	14.3	12.9	21.6	NM	2.8	9.1	15.3	3,162	510	16.1
First Tennessee Natl	16.8	18.6	19.0	10.9	6.4	24.6	20.2	23.2	1,026	140	13.6
Bancorp Hawaii	16.7	14.5	12.1	34.7	9.2	-0.3	7.9	14.7	937	136	14.5
Old Kent Financial	16.5	16.4	16.4	0.1	NM	4.4	9.3	5.5	841	133	15.8
CoreStates Financial	16.3	10.4	6.8	43.9	3.9	14.4	NM	-36.1	2,342	223	9.5
SouthTrust	16.1	15.8	12.0	32.4	10.8	14.2	11.6	11.2	1,217	167	13.7
Integra Financial	15.8	16.0	14.5	30.6	10.4	4.0	22.8	3.1	1,102	167	15.2
US Bancorp	15.7	8.4	7.0	38.1	6.6	-0.8	10.2	-42.7	1,947	153	7.8
First Empire State	15.7	15.8	14.5	9.5	10.6	-1.6	19.6	17.1	845	112	13.3
Wachovia	15.7	17.1	10.9	59.5	6.3	5.7	7.6	9.3	2,866	520	18.1
National City	15.4	15.8	13.7	22.0	3.5	5.4	2.8	11.8	2,822	422	14.9
First of America Bank	15.4	15.4	14.1	33.3	14.2	1.3	4.3	7.1	1,837	234	12.7
Premier Bancorp	15.4	18.2	18.5	42.6	-3.8	12.9	111.0†	-1.6	386	70	18.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.

Playing in the big leagues

Even with the Civil War still raging, Franklin S. Davis figured in 1864 that a national banking system would catch on and that Memphis would need to finance its recovery once the war ended.

One hundred thirty-one years later, Davis' legacy, \$10 billion (assets) First Tennessee National, is again blazing a trail in its industry. While most regional banks its size have fee income equal to about 25% of revenues, First Tennessee now generates half of its \$1 billion in revenues from such fee businesses as bond underwriting, mortgage banking and trust services. That puts it on a par with big New York City mavericks like J.P. Morgan and Bankers Trust.

By emphasizing fee-based businesses, First Tennessee has avoided many of the cyclical swings banks tend to suffer. Over the past five years, earnings per share grew at an average rate of 20%; return on equity, nearly 17%. Medians for this industry: 5.4% and 14%, respectively.

Another key to success, says First Tennessee's chief executive, Ralph Horn, 53, is its location. As the largest bank in the state, with 200 bank branches in most of its metropolitan and suburban regions, First Tennessee has been able to take advantage of Tennessee's fast-growing economy. Economic growth and good credit analysis have held First Tennessee's nonperforming loans as a percentage of assets to just 0.38%, versus an average

Ferguson & Katzman



First Tennessee National's
Ralph Horn

A southern trailblazer.

0.96% for similar-size banks nationwide.

First Tennessee's growing check-clearing business also benefits from the Memphis location, thanks to nearby neighbor Federal Express Corp. Using the FedEx overnight delivery service, First Tennessee is becoming one of the most efficient check-clearing banks in the nation. Its 125-person check-clearing unit is housed right on FedEx premises. About 1 mil-

lion checks from all over the nation arrive via FedEx in Memphis each night at 11:30. They are cleared and loaded back onto airplanes at 3 a.m., slashing clearing time to less than a day.

First Tennessee doesn't dodge every bullet. Revenues at its bond trading business were off 20% through the first nine months of 1994. Still, other large bond trading firms are suffering much larger declines. "We were lucky because we don't trade bonds for our own account," says Horn. "We just distribute them."

Lately Horn has moved into mortgage banking. Since late 1993 First Tennessee has purchased four mortgage firms and increased its mortgage servicing portfolio from \$1 billion to \$13 billion. With rates rising, these portfolios tend to appreciate because the underlying mortgages are perceived to be less likely to be prepaid.

First Tennessee's stock rose nearly 9% during 1994. Even so, at a recent 40¼, it sells for less than 9 times estimated 1995 earnings and 1.8 times book value. —M.S.

"Bankers can't merely surf the yield curve anymore," says Brent Erensel, an analyst at UBS Securities in New York City. "Now they must manage the yield curve and their revenue sources and be mindful of expenses."

Smart bankers have already been doing that. They have been slow to raise the rates they pay depositors, much quicker to raise their prime lending rates. For many banks 1994 spreads weren't much below their 1993 peak of 475 basis points. Los Angeles-based First Interstate greatly increased its net interest margins during 1994. With loan demand up, Citicorp's return on equity for the latest 12

months was 25%; regionals like Midlantic, Michigan National and Norwest all had returns over 20%. Norwest is expanding its mortgage business with a \$250 million deal for Directors Mortgage Loan Corp. Less happy were owners of banks that accumulated big portfolios of long-term bonds, often enhanced by derivatives. Examples include BancOne, Keycorp and PNC Bank.

As the bull stock and bond markets stumbled, brokerage industry profits dropped by nearly 80%, to \$1.8 billion (pretax). Blame the Fed again. According to the Securities Industry Association, bonds lost \$1 trillion in value in 1994.

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
NBD Bancorp	14.9	16.2	12.8	42.3	8.3	1.8	3.7	11.6	3,306	525	15.9
First Union	14.7	16.7	12.2	36.8	13.1	13.2	12.2	11.0	6,057	889	14.7
Comerica	14.6†	17.0	12.4	60.2	NM	10.5	5.4	14.8	2,437	381	15.6
Mellon Bank	14.5	13.9	9.5	26.8	-2.0	20.3	16.9*	5.9	3,733	506	13.6
PNC Bank	14.5	16.8	15.1	19.6	NM	9.8	NM	4.6	4,577	753	16.5
AmSouth Bancorp	14.3	13.9	14.0	24.3	2.3	33.0	8.6	2.7	1,190	164	13.8
KeyCorp	14.0	17.7	14.0	30.5	2.9	1.2	15.3	5.7	5,263	782	14.9
Boatmen's Bancshs	13.9	16.0	14.0	20.1	9.2	7.8	19.4	25.0	2,221	340	15.3
Mercantile Bancorp	13.6	15.5	15.5	21.7	5.1	11.2	21.9	15.4	977	152	15.5
BanPonce	13.6	14.2	11.5	33.1	11.3	11.9	3.0	19.5	985	120	12.2
Wells Fargo	13.6	21.3	11.1	44.2	NM	0.7	-7.4	81.0	4,912	815	16.6
Marshall & Ilsley	13.5	7.9	7.9	33.0	3.7	-0.2	10.0	-46.1	1,166	90	7.7
Commerce Bancshs	13.4	13.2	13.2	0.9	2.7	5.6	9.2	12.7	605	95	15.7
First Fidelity Bncp	13.3	16.1	14.0	22.0	-3.9	1.9	NM	12.2	2,488	440	17.7
NationsBank	13.0	16.5	11.0	41.5	4.4	28.5	NM	32.8	12,552	1,658	13.2
First Security	13.0	14.8	13.0	24.8	7.6	20.9	14.5	-0.4	927	126	13.6
Meridian Bancorp	12.5	13.5	11.1	23.2	3.0	-0.3	NM	8.2	1,213	160	13.2
Signet Banking	12.1	16.0	13.6	19.0	-3.3	19.2	NM	-0.9	1,322	157	11.9
First Bank System	10.9	18.6	13.7	35.3	NM	7.5	NM	185.8	2,292	405	17.7
Bank of New York	10.6	18.4	13.7	25.9	NM	7.2	NM	38.0	4,032	705	17.5
Crestar Financial	10.5	15.4	14.1	16.4	NM	8.2	NM	26.1	1,158	165	14.3
Union Bank	10.5	4.4	4.5	25.5	5.3	-4.7	-11.0	-47.0	1,228	59	4.8
Barnett Banks	10.3	16.3	14.1	17.7	4.1	-5.6	NM	54.8	3,049	476	15.6
Fleet Finl Group	9.4	15.9	11.1	44.0	9.0	-8.2	NM	31.1	4,425	584	13.2
First American Corp	9.1	16.7	15.6	20.3	-7.6	8.0	NM	15.1	553	97	17.6
First Interstate Bncp	8.5	19.3	14.8	26.2	-9.9	4.7	NM	40.2	4,091	678	16.6
Michigan National	7.1	26.4	25.5	5.5	-3.8	-1.5	-24.8	500.0+	938	224	23.9
BayBanks	5.9	13.8	13.2	6.5	-4.0	1.0	NM	20.1	835	100	12.0
UJB Financial	5.8	12.1	11.1	16.0	NM	1.1	NM	67.4	1,093	121	11.1
Shawmut National	2.1	12.4	12.0	43.4	-8.8	13.1	NM	129.4	2,178	278	12.7
Hibernia	def	15.6	17.5	0.7	-9.6	18.3	NM	50.9	430	75	17.4
Midlantic	def	23.7	18.8	22.2	-12.9	-4.1	NM	195.8	1,030	261	25.3
Riggs National	def	13.3	8.1	44.5	-9.7	-9.4	NM	D-P	347	29	8.4
Medians	14.0	16.0	13.7	25.5	3.5	5.7	5.4	13.4	1,403	223	14.9
Thrift institutions											
Anchor Bancorp	19.3	12.1	10.5	46.6	-10.7	-4.8	NM	-32.7	529	48	9.1
Golden West Finl	17.9	12.3	8.5	47.7	5.1	-2.0	16.4	-8.1	1,893	251	13.3
Standard Fedl Bank	15.5	16.4	16.6	1.8	-3.4	4.3	17.9	8.5	802	120	14.9
Washington Mutual	14.6	16.0	14.0	5.9	12.2	19.3	NM	1.7	1,272	176	13.9
TCF Financial	13.2	18.1	16.7	11.6	-5.2	2.9	NM	29.7	472	54	11.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

The big losers were trading departments at firms like J.P. Morgan, Bankers Trust and Salomon Brothers. Salomon's profits fell nearly 60%, while PaineWebber's were off almost as much because of heavy derivatives losses in its proprietary government bond funds. That business needed a \$268 million bailout. General Electric, tired of the scandalous losses at Kidder, Peabody, sold it to PaineWebber for \$670 million in PaineWebber securities.

Merchant bankers, including the Blackstone Group, Forstmann Little and KKR, raised money last year and are likely to play the mergers-and-acquisitions game again in

1995. Wall Street recruiter Joan Zimmerman of G.Z. Stephens predicts that investment banking could be a big source of profits for the brokerage industry in 1995.

In the mutual fund industry, depressed financial markets and meager returns could create problems for fund sponsors. With the average growth fund showing a 1.5% loss for 1994, funds like those from Franklin Resources, which charge loads up to 5.75%, aren't likely to be popular. Meanwhile, the unexplained bookkeeping errors at Fidelity Investments' huge Magellan Fund hung above the industry like a dark thunderhead as 1994 came to a close. ■

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
FirstFed Michigan	6.4	def	def	22.0	-8.9	-14.2	14.6	P-D	646	-56	def
Commercial Federal	6.0	def	def	13.4	-9.3	3.2	NM	P-D	407	-14	def
Great Western Finl	5.1	5.5	5.5	46.7	-3.1	-0.7	-28.5	D-P	2,812	144	5.1
Coast Savings Finl	4.1	0.2	2.2	32.8	-14.4	-7.1	NM	-97.7	544	1	0.2
HF Ahmanson	3.0	7.6	7.4	35.5	-3.4	0.3	NM	D-P	3,175	248	7.8
People's Bank	def	16.8	15.7	0.0	-5.1	3.8	NM	98.9	508	67	13.2
Dime Bancorp	def	16.6	15.1	1.2	-11.3	-3.6	NM	D-P	606	82	13.5
California Federal	def	def	def	7.7	-19.0	-4.6	NM	D-D	1,109	-216	def
Glendale Federal Bank	NA	NA	NA	9.9	-18.8	1.2	NA	NA	1,075	-179	def
Medians	6.0	12.1	8.5	12.5	-7.1	-0.2	NM	1.7	724	61	8.5
Brokerage & commodity											
Charles Schwab	33.9	33.8	24.3	29.2	21.7	17.8	77.0	8.6	1,218	130	10.7
Inter-Regional Finl	26.2	18.8	17.9	16.3	14.1	0.8	NM	-22.3	501	35	6.9
Alex Brown	24.0	25.3	22.2	16.5	20.4	24.8	75.3	25.8	671	90	13.4
AG Edwards	23.0	17.9	18.1	0.0	21.2	4.4	30.3	-0.5	1,246	143	11.5
Bear Stearns Cos	22.4	15.7	8.3	59.2	7.5	15.0	29.8	-23.6	3,479	318	9.1
Morgan Stanley	21.4	12.2	8.2	55.2	14.9	2.6	11.6	-32.8	9,120	537	5.9
Merrill Lynch	20.4	21.3	11.9	63.0	8.5	19.0	90.8†	-1.4	18,259	1,202	6.6
PaineWebber Group	16.5	9.1	6.6	65.6	8.4	6.3	NM	-50.1	4,001	108	2.7
Salomon	16.1	4.3	4.5	71.1	4.5	-8.1	28.7	-59.5	7,514	234	3.1
Lehman Bros Holdings	NA	23.4	8.6	76.3	NA	NA	NA	NA	7,437	674	9.1
Medians	22.4	18.4	10.2	57.2	14.1	6.3	29.8	-22.3	3,740	189	8.0
Lease & finance											
Sallie Mae	40.4	39.9	3.4	95.4	NM	8.1	18.0	8.6	2,827	427	15.1
Franklin Resources	34.9	34.2	22.4	25.9	27.5	29.0	24.2	41.5	827	251	30.4
Federal Natl Mortgage	31.3	26.2	7.2	94.0	8.3	13.8	26.9	9.8	17,757	2,129	12.0
Federal Home Loan Mtg	24.5	24.3	7.2	89.8	11.9	29.0	13.6	25.8	6,664	979	14.7
Countrywide Credit	21.0	16.0	9.7	59.2	51.6	28.0	56.3	-18.8	1,219	143	11.7
Travelers	19.2	15.3	9.6	43.2	31.6	177.3	20.8	12.0	16,280	1,291	7.9
Beneficial	15.0	17.2	7.5	75.9	6.1	8.7	8.3	28.4	2,074	212	10.2
Household Intl	13.7	15.4	8.3	76.7	9.6	3.6	-8.0	27.8	4,546	350	7.7
GATX	11.7	13.9	6.3	72.9	13.6	5.9	NM	23.2	1,125	83	7.4
Rouse	def	def	5.1	93.9	6.9	5.0	NM	D-D	673	3	0.5
American Express	NA	20.7	13.2	46.9	2.1*	-1.7	NM	-17.6	14,189	1,336	9.4
Dean Witter Discover	NA	20.6	13.0	50.9	9.3	12.4	38.0*	25.0	6,333	739	11.7
MBNA	NA	31.8	18.0	62.2	20.1	29.0	17.9	26.0	1,691	248	14.6
Medians	20.1	20.6	8.3	72.9	9.6	12.4	17.9	23.2	2,827	350	11.7
Industry medians	14.5	16.0	12.3	33.1	3.8	4.4	6.8	12.0	1,837	232	13.2
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

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Food distributors

Restaurants struggled with overexpansion and changing consumer spending habits. Food wholesalers face more consolidation.

By Toddi Gutner Block

"There are too many restaurants chasing too few mouths," says Peter Oakes, Merrill Lynch's restaurant analyst. For the first time since 1990 the average restaurant stock showed a loss last year—a 23% decline through mid-November, versus a 0.2% drop in the S&P 500.

Why did Wall Street lose its appetite? Take industry bellwether Brinker International, a casual dining chain

(Chili's Grill & Bar, Brady's American Grill) with about 500 restaurants nationwide. For the first time in years, Brinker recently announced it expects to fall short of earnings expectations for its December quarter. Same-store sales are down 2% at its flagship chain, Chili's, because of increased competition and weakness in its number two market, Florida. Meanwhile, at Lebanon,

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Supermarkets & convenience											
Quality Food Centers	30.5	18.7	18.1	0.0	16.2	9.1	27.0	-5.8	547	25	4.6
Albertson's	24.4	26.6	18.8	25.7	10.7	8.7	15.7	15.9	11,693	369	3.2
Safeway	23.9	45.9	12.1	75.0	2.1	0.5	18.6	108.4	15,438	211	1.4
Winn-Dixie Stores	23.2	21.6	20.6	7.4	3.8	2.8	13.4	-6.0	11,208	220	2.0
Food Lion	18.6	3.2	3.9	45.8	14.9	5.2	14.1	-72.7	7,871	29	0.4
Hannaford Bros	16.9	15.1	11.8	32.4	10.6	5.6	10.4	10.7	2,196	60	2.7
Giant Food	16.2	12.5	10.8	22.7	3.3	3.3	-4.1	2.0	3,614	89	2.5
American Stores	15.0	18.2	10.5	49.8	NM	-0.9	22.9	24.0	18,579	317	1.7
Vons Cos	13.9	6.9	5.5	55.8	4.4	-5.2	-12.8†	-11.6	4,991	36	0.7
Riser Foods	13.7	2.6	4.7	56.4	NM	1.2	-26.9*	-76.0	1,122	2	0.1
Casey's General Store	13.7	13.9	9.8	24.2	9.1	8.2	19.1	21.4	643	18	2.8
Bruno's	12.7	10.4	7.5	38.6	5.8	-0.8	-4.7	-1.8	2,847	43	1.5
Weis Markets	12.4	9.9	9.8	0.0	3.2	6.6	-2.8	3.7	1,490	73	4.9
Ruddick	12.3	11.5	9.1	28.0	7.6	10.2	4.5	7.1	1,908	32	1.7
Smith's Food & Drug	12.3	8.5	5.3	53.2	14.9	6.7	12.3	-4.9	2,954	44	1.5
Marsh Supermarkets	11.4	7.3	5.9	54.5	6.4	7.6	NM	-5.9	1,231	8	0.7
Schultz Sav-O Stores	10.2	12.9	9.7	30.5	1.8	-7.0	NM	80.0	448	5	1.2
Delchamps	10.1	7.3	6.1	16.3	3.2	2.0	NM	-31.7	1,067	10	0.9
Ingles Markets	7.5	10.5	8.2	52.0	7.2	7.7	-11.1	58.2	1,209	16	1.3
Stop & Shop Cos	5.9	36.8	10.7	62.6	-6.3	7.0	NM	29.7	3,704	75	2.0
Seaway Food Town	5.4	6.6	5.8	54.2	1.2	-3.6	-12.4	118.8	546	2	0.5
Buttrey Food & Drug	5.2†	3.0	def	30.3	-4.8†	-9.6	NM	141.7	398	-722	def
Eagle Food Centers	5.2	def	def	68.6	NM	-4.2	NM	P-D	1,024	-25	def
Dairy Mart	4.0	def	1.7	72.1	1.9	-1.1	NM	D-D	563	-4	def
Carr-Gottstein Foods	2.6†	8.3	7.1	54.0	7.3	0.3	NA	103.7	568	9	1.6
Great A&P Tea	2.0	def	1.9	43.2	NM	-1.0	NM	D-D	10,322	-6	def
Village Super Market	1.3	def	1.1	39.9	1.3	-2.6	NM	P-D	695	-1	def
Foodarama Supermkts	def	0.7	5.1	52.9	6.3	-8.6	NM	D-P	621	0	0.1
Penn Traffic	def	142.8	8.0	92.7	15.4	8.4	NM	264.8	3,319	22	0.7
Kroger	NE	NE	25.9	223.8	3.8	0.4	16.5†	52.3	22,776	263	1.2
Nati Convenience	NA	4.8	5.4	58.9	-4.7	0.3	NA	NA	882	3	0.4
Southland	NA	NE	9.1	227.7	-5.6	-3.2	NM	D-P	5,745	30	0.5
Medians	11.9	8.4	7.8	50.9	3.5	0.9	-11.8	7.1	1,699	24	1.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.
 *Four-year average. †Three-year average. For further explanation, see page 125.
 Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Tenn.-based Cracker Barrel, a chain of 180 "country-style" restaurants, revenues were off slightly, and the chain's growth rate continued to slow.

But there were some winners, too. Steakhouses were hot. With a 16% return on equity last year, the Lone Star Steak House & Saloon chain, with revenues of \$164 million, was the most profitable company in *FORBES'* annual survey of the Best Small Companies in America (Nov. 7, 1994). Why? Americans are eating less red meat,

but when they do, they like to eat a good steak (*FORBES*, Dec. 5, 1994). (Lone Star, as well as competitors such as Outback Steakhouse, was too small to make the Annual Report on American Industry this year.)

U.S. beef prices dropped 25% last year, allowing McDonald's and Grand Metropolitan's Burger King to lower prices and step up promotions. McDonald's earnings grew 15% over the last 12 months. At Wendy's International, earnings rose 19%. Both chains improved

Small investments, big result

Hannaford Bros. was started as a small fruit and vegetable shop in Portland, Me. in 1883. Today it's a \$2 billion (sales) supermarket chain that is among the largest in the Northeast. It has 118 stores, mainly in New England and New York; they operate under the Shop 'n Save, Alexander's and Sun Foods banners.

Though dwarfed by the likes of \$15 billion Safeway and \$23 billion Kroger, Hannaford is a standout when it comes to profitability. Of the supermarket chains followed in the *Forbes* Annual Report on American Industry, only three other companies show net profit margins higher than Hannaford's 2.7% for last year.

Hannaford's 15% return on equity for 1994 was nearly double the industry median of 8.4%. "Hannaford, which did well despite a weak Northeast economy, should be able to maintain profits during its expansion into new markets," says Merrill Lynch food analyst Gary Vineberg.

In a thin-margin business like groceries, the key is overhead control. Hannaford Chief Executive Hugh Farrington, 49, a

Afp Burdette



Hannaford's Hugh Farrington
Improving profits through technology.

26-year veteran at the chain, aggressively uses new technology to gain operating efficiencies. Usually the investments are relatively small, but their results add up.

Last year Farrington spent \$2.3 million on a satellite network that links all the stores. Used to transfer pricing and inventory data between the stores and headquarters, the network not only speeds up the collection of information but also saves about \$500,000 a year in telephone charges.

Also last year, Farrington purchased the firm's own electronic switch to

process credit and debit card transactions. That will save another \$500,000 a year.

Since 1992, the company's computerized labor scheduling program has eliminated \$4 million in costs by quickly adjusting staffing to changing store needs.

To attack escalating workers' compensation costs, Farrington has invested in computer programs that educate store employees on health and safety issues. So far, Hannaford has trimmed workers' comp claims by some \$1 million from a year before.

Now Farrington wants to push beyond his traditional territory. Last June he bought Wilmington, N.C.-based Wilson's Supermarkets, a family-owned chain of 21 stores, for \$120 million.

Five new stores are currently under development, and six more will be added over the next year and a half.

"Our growth hasn't been meteoric," says Farrington, "but we pride ourselves on good solid results." —T.G.B.

productivity in existing units and opened new stores.

In lieu of building traditional stand-alone outlets, many fast-food chains are moving into locations with high pedestrian traffic. McDonald's, for example, is opening outlets in Wal-Mart and Home Depot stores. Taking a page from the pizza chains, McDonald's is introducing home delivery service in Manhattan.

In terms of profitability, grocery stores fared worse than restaurants did. The median return on equity for grocery chains dropped from 10.4% to 8.4% in 1994. Yet Standard & Poor's supermarket stock index rose 9% last year. Why?

Many grocery chains benefited from strong private-label sales and a pickup in the economy, which meant that average checkout tabs were higher. PepsiCo has begun to market products under its Taco Bell Mexican restaurant name in supermarkets.

One big disappointment: warehouse clubs. Once expected to take up to 12% of the supermarkets' \$390 billion business, warehouse clubs currently command only a 5% share. Market saturation, consumer disenchantment and

aggressive supermarket competition pared down the warehouse clubs' 30% annual sales gains of the mid-1980s to 7% last year. Big losers: Price/Costco and Waban's B.J.'s division (see table, p. 193).

Big isn't always ugly, however. Wal-Mart is aggressively rolling out its supercenters—150,000-to-220,000-square-foot supermarkets combined with general merchandise stores—in small rural towns where few large supermarket chains are situated. Kmart is also building supercenters and plans to have nearly 100 by the end of the year. Industry watchers expect such stores to steal up to 6% of the grocery market by 1997, but traditional chains like Safeway are betting that shoppers won't want to buy their apples where they buy their auto supplies.

Food wholesalers like Nash Finch & Co. and Super Food Services may be more vulnerable than grocery stores to the supercenters. That's because food wholesalers' biggest customers are independent grocery stores, the prime target of the supercenters. Expect the food wholesale industry to continue consolidating.

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Food wholesalers											
Richfood Holdings	21.8	19.6	14.1	31.3	NM	12.2	65.3*	3.1	1,278	18	1.4
Sysco	19.2	19.2	13.3	27.4	9.8	8.7	14.5	12.7	11,216	227	2.0
Supervalu	17.6	14.4	9.2	51.4	11.0	4.7	7.6	4.1	16,122	182	1.1
Nash Finch	10.1	8.7	7.7	32.0	4.9	3.3	NM	0.0	2,810	17	0.6
Fleming Cos	8.3	def	2.8	43.1	4.1	8.7	-10.9	P-D	14,204	-1	def
Super Food Services	5.9	6.9	6.7	29.6	-9.3	-3.0	-13.3	-4.7	1,130	9	0.8
Rykoff-Sexton	1.4	4.8	5.0	50.5	3.0	5.1	-15.2	D-P	1,558	8	0.5
Medians	10.1	8.7	7.7	32.0	4.1	5.1	-10.9	3.1	2,810	17	0.8
Restaurant chains											
PepsiCo	25.7	26.8	12.9	43.5	13.6	13.6	14.0	24.6	27,072	1,713	6.3
McDonald's	19.4	19.2	12.5	26.4	5.8	9.3	10.8	15.4	7,983	1,180	14.8
Morrison Restaurants	18.0	26.9	24.5	0.6	7.7	3.2	11.4	59.7	1,169	61	5.2
Cracker Barrel	17.9	14.7	13.9	5.4	30.9	23.1	31.6	19.5	673	59	8.8
Brinker Intl	17.3	16.4	16.7	1.3	24.7	30.1	26.1	20.4	920	65	7.1
Bob Evans Farms	15.6	15.1	14.8	0.0	11.3	6.9	11.8	11.3	719	50	6.9
Wendy's Intl	12.1	14.9	12.2	18.3	4.7	5.2	24.9	18.7	1,348	93	6.9
Vicorp Restaurants	11.3	7.2	7.1	20.1	5.4	0.2	14.5*	-32.9	423	11	2.6
CKE Restaurants	7.3	2.8	4.3	38.2	NM	-4.6	-16.5	D-P	453	3	0.6
Sizzler Intl	def	def	def	8.2	4.8	-3.7	NM	P-D	481	-96	def
Flagstar Cos	def*	NE	def	207.8	2.0	-22.1	NM	D-D	3,022	-1,238	def
Shoney's	NE	NE	47.1	161.0	7.9	7.1	10.1	D-P	1,181	63	5.3
Foodmaker	NA	def	def	79.5	1.4	-15.1	NA	D-D	1,053	-36	def
Medians	13.8	14.7	12.5	20.1	5.8	5.2	11.6	18.7	1,053	59	5.3
Industry medians	12.1	8.6	8.1	41.5	4.5	3.2	-4.1	10.7	1,313	24	1.2
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



*MSRP \$52,500, incl. dealer prep but excludes destination & handling charges. Taxes, licenses & options. Actual price depends on dealer & subject to change without notice. Airbags are a supplemental restraint system. Always buckle up for security. Read & drive responsibly off road. ©1994 Land Rover North America, Inc.

The real reason many CEOs are unavailable for comment.

These days, more and more chief executives can't be reached because they're behind closed doors.

The doors of the 1995 Range Rover County LWB, to be exact.

Because with its permanent four-wheel drive and 4.2 liter V-8 engine, the Range Rover County LWB can easily take people places even cellular phones can't reach.

Not to mention lesser 4x4s.

And, in addition to such confidence-inspiring features as electronic traction control and anti-lock brakes, it's the first 4x4 to offer dual airbags, to better



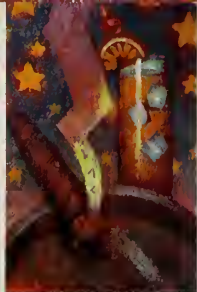
RANGE ROVER

protect the corporate assets.

This Range Rover also boasts a completely redesigned and reengineered interior, offering a level of comfort and polish impressive even to owners of earlier Range Rovers.

Even at just under \$53,000*, many consider it quite a value. So why not call 1-800-FINE 4WD for a dealer near you?

And start climbing something besides the corporate ladder.



Food, drink and tobacco

Things are looking up a bit for the tobacco companies, but the war continues to rage on between brands and private-label goods.

By William Heuslein

Tobacco companies are breathing a bit easier. The new Republican-controlled Congress will be more broad-minded about smoking, and the industry seems to have been granted a reprieve from any health-care-related taxes.

The discount-cigarette threat has subsided somewhat, too. Both Philip Morris and RJR Nabisco have increased their advertising and promotion of premium brands and

have begun to restore some of their earlier price cuts. According to the *Maxwell Consumer Report* from Wheat First Securities, premium smokes had a 68% market share in the third quarter of 1994, compared with a 66.5% share in the third quarter of 1993.

The big question mark is in the courtrooms. Recently a Florida judge granted class-action status to cigarette

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Food processors											
General Mills	37.7	32.4	16.5	39.1	8.5	2.5	2.6	-9.8	8,408	455	5.4
Wm Wrigley Jr	33.6	39.3	37.8	0.0	9.5	12.6	14.5	32.9	1,555	226	14.5
Kellogg	32.9	41.4	29.4	23.2	8.4	6.3	11.3	10.3	6,536	702	10.7
Thorn Apple Valley	29.3	14.1	12.6	21.5	4.0	4.9	-9.0†	3.3	777	13	1.6
Ralston-Purina	26.7†	26.1	12.2	53.8	4.3	-2.6	NA	-17.2	5,759	231	4.0
Quaker Oats	26.6	27.6	17.5	41.3	4.1	5.0	11.6	-33.4	6,057	201	3.3
HJ Heinz	25.2	25.4	17.0	39.7	4.2	1.1	6.0	14.4	7,200	605	8.4
Lancaster Colony	24.8	28.4	24.9	11.9	8.0	13.3	29.4	28.5	738	62	8.4
Campbell Soup	24.5	35.7	26.6	19.4	2.9	2.1	NM	149.1	6,791	661	9.7
CPC International	23.9	17.4	13.9	27.6	7.8	5.5	8.4	-16.2	7,155	335	4.7
McCormick & Co	23.9	22.4	14.0	40.3	5.7	6.4	15.4	12.2	1,647	104	6.3
Pioneer Hi-Bred Intl	20.7	26.0	22.7	6.4	11.4	10.1	20.9	56.9	1,479	213	14.4
Universal Foods	18.7	19.2	12.1	35.8	2.2	4.3	4.8	4.2	930	51	5.5
Hershey Foods	18.5	17.3	14.7	8.9	9.9	4.1	8.1	-9.7	3,563	252	7.1
Smithfield Foods	18.2	17.3	12.5	48.1	12.0	16.8	NM	500.0+	1,521	29	1.9
ConAgra	18.0	17.9	12.3	43.0	14.4	11.0	9.9	17.1	24,071	446	1.9
Hormel Foods	17.7	20.7	20.5	0.9	4.5	7.4	10.4	17.6	3,065	118	3.9
Dreyer's Grand	17.3	2.9	3.1	38.8	20.3	16.4	14.5	-79.8	533	4	0.7
Dean Foods	16.2	15.4	12.3	25.7	6.8	8.5	2.9	20.5	2,486	77	3.1
JM Smucker	16.0	13.0	11.8	16.2	6.4	10.9	3.7	-15.9	538	31	5.7
Lance	16.0	11.9	11.0	0.0	2.7	3.0	-4.5	-6.9	480	29	6.1
Sara Lee	15.9	6.1	5.0	19.7	6.4	8.4	NM	-67.8	16,030	244	1.5
Savannah Foods	14.9	2.1	2.9	37.7	3.2	-3.8	-7.9	-82.2	1,092	4	0.4
Unilever NV	14.8	13.1	10.4	12.0	4.7	1.4	3.3	-13.1	44,661	1,813	4.1
Flowers Industries	13.7	11.4	8.9	22.9	4.9	3.8	NM	-17.6	1,006	31	3.1
Tyson Foods	13.0	def	1.7	44.2	12.7	8.6	NM	P-D	5,110	-2	def
Archer Daniels	12.0	10.6	8.9	25.7	7.7	17.3	3.6	11.0	11,776	570	4.8
Pet	11.7*	25.3	12.3	57.2	-3.6	2.7	NM	D-P	1,574	84	5.4
WLR Foods	11.3	12.7	10.6	26.3	9.1	15.8	NM	29.1	759	19	2.5
Pilgrim's Pride	11.0	23.5	12.5	41.9	6.9	3.9	6.0	39.5	923	31	3.4
Grand Metropolitan	10.4	5.2	4.8	41.8	5.3	1.3	-27.7*	-53.2	10,759	357	3.3
Seaboard	10.2	8.4	6.2	36.0	23.0	-8.8	-4.7	-6.5	1,038	26	2.5
IBP	10.1	20.5	13.4	38.1	5.5	0.4	8.9	71.4	11,671	127	1.1
Dole	9.9	4.4	3.6	52.4	7.0	8.3	-9.1	-37.6	3,682	47	1.3
Hudson Foods	9.5	15.1	9.9	25.2	10.9	13.1	NM	60.4	1,041	27	2.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.

smokers in a \$200 billion (with a "b") liability suit against tobacco makers. Meanwhile, the Federal Trade Commission is challenging American Brands' \$1 billion sale of its domestic tobacco business to B.A.T. Industries.

RJR Nabisco announced plans to separate its tobacco and food operations. Meanwhile, Kohlberg Kravis Roberts & Co. is trying to cut back its troubled investment in RJR Nabisco by acquiring ailing food giant Borden. If the takeover is approved, dealster Henry Kravis is sure to come

out ahead. The same cannot necessarily be said for shareholders of either company (FORBES, Dec. 19, 1994).

Mainly because of the continuing battle between brands and private-label goods, many food processors are having a tough time. Latest 12-month earnings for the 47 food processors in this survey rose only 3.3%, barely in line with inflation. Those hit hardest included Borden, Quaker Oats and General Mills. "Companies are no longer trying to sell cereal as if it was perfume. It was getting ridiculous. You'd

More deals, please

Often thought of as a housewares company (it produces glassware and candles), Lancaster Colony Corp. has a thriving food business that not many people are aware of. Last year food contributed 40% of Lancaster's \$722 million in revenues, and 40% of operating income.

Based in Columbus, Ohio, Lancaster markets a line of niche brand-name products, including T. Marzetti salad dressings, vegetable dips and fruit dips; Girard's and Pfeiffer salad dressings; Reames frozen noodles and pasta; Mountain Top frozen pies; and New York brand frozen breads.

Lancaster pioneered the market for vegetable and fruit dips, which are sold in the high-margin produce sections of supermarkets rather than on the grocery shelves. Lancaster's food service business sells salad dressings and frozen breads to outfits like Wendy's and Bob Evans restaurants, where margins tend to be smaller but the volumes large.

Lancaster is a family affair. Chairman and Chief Executive John B. Gerlach, 67, took over from his father, John J. Gerlach, who recently died at age 92. Son John B. Jr., 40, is now the firm's president and chief operating officer. At a recent 31¼ a share,



Lancaster's equity is worth nearly \$1 billion; the Gerlachs own one-third of the company.

Gerlach made a smallish acquisition in 1993: Romanoff International, for \$5.4 million cash. The deal added Texas Best barbecue sauce, Jack Daniel's mustards and Romanoff caviar. Gerlach would like to do more—and bigger—deals. "We're very interested in acquisitions," he says. "We're in a position where we would like to pay cash. But we'll entertain stock deals." With long-term debt less than

14% of capital, raising cash for deals would be a cinch for Gerlach.

Not everything has gone Lancaster's way. The Midwest floods in the summer of 1993 wrecked the U.S. soybean crop and pushed up the price of soybean oil, a crucial raw material for Lancaster. Soybean oil prices are still stubbornly high.

Lancaster is also a low-cost provider of rubber, vinyl and carpet-on-rubber car mats and other automotive accessories for both original equipment manufacturers and the con-

Lancaster's John B. Gerlach Jr. and John B. Gerlach
Candles, car mats, caviar.

sumer aftermarket.

Lancaster's 1994 earnings of \$60 million, or \$1.97 a share, rose 30% over 1993. Gerlach expects sales this year to exceed \$800 million. Timothy Reiland, of Milwaukee's Cleary Gull Reiland & McDevitt brokerage, expects a 19% increase in 1995 earnings, to \$2.35 a share. Says John Gerlach: "I think we've learned how to manage the business pretty well." —W.H.

buy a \$4 box of cereal, with \$1 of marketing in it," says John McMillin, a Prudential Securities analyst.

Less vulnerable and likely to continue posting higher earnings are Campbell Soup, IBP, Hudson Foods and Wrigley. Campbell plans to buy salsa maker Pace Foods, a private firm, for \$1.1 billion. Sandoz Ltd. bought baby food company Gerber Products last summer for \$3.7 billion.

Beverage firms did better than foodmakers: The median beverage company's 12-month earnings rose 12.8%. "The

big [beverage] companies have found there's a new kind of vigor in their brands," says Tom Pirko, president of consulting firm Bevmark, Inc. But Pirko sees problems for companies that market New Age drinks like Clearly Canadian. "They'll be running routes against Coca-Cola, which is really dedicated to being a major innovator." One such casualty: Snapple Beverage, whose earnings were stumbling as 1994 ended. Snapple is being acquired for \$1.7 billion by Quaker Oats, maker of Gatorade. ■

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Interstate Bakeries	8.0*	7.8	5.7	48.5	1.6	-1.2	NM	-44.4	1,147	15	1.3
Intl Multifoods	6.6	16.7	10.0	40.5	3.2	0.6	NM	500.0+	2,225	42	1.9
American Maize	4.3	9.2	6.7	33.9	NM	13.6	NM	D-P	598	20	3.3
Michael Foods	4.3	def	def	34.3	19.5	9.4	NM	P-D	505	-10	def
Imperial Holly	1.1	def	1.3	46.7	-1.1	-3.6	NM	D-D	634	-2	def
Valhi	def	4.4	5.4	59.7	0.9	7.5	NM	D-P	835	9	1.1
Chiquita Brands Intl	def	def	1.0	64.1	-7.1	-5.4	NM	D-D	2,447	-75	def
Borden	def	def	def	60.1	-4.5	-5.3	NM	P-D	5,552	-763	def
ERLY Industries	def	43.5	10.6	66.8	NM	65.3	NM	D-P	432	5	1.2
Doskocil Cos	NA	def	4.1	83.0	NM	2.3	NA	D-D	705	-1	def
Ralcorp Holdings	NA	42.1	13.3	69.5	11.8	9.3	NA	32.5	987	54	5.4
Ralston-Continental	NA	def	def	75.1	0.3	-2.4	NA	P-D	1,949	-26	def
Medians	15.4	15.1	11.0	38.1	5.5	5.0	-4.7	3.3	1,574	47	3.1
Beverages											
Coca-Cola	48.4	53.8	41.0	21.6	11.6	12.3	15.1	17.3	15,528	2,453	15.8
PepsiCo	25.7	26.8	12.9	43.5	13.6	13.6	14.0	24.6	27,072	1,713	6.3
Brown-Forman	21.5	31.3	18.1	34.6	8.2	0.2	8.6	5.1	1,417	146	10.3
Coca-Cola Bottling	18.8	49.8	6.2	79.7	16.6	2.3	NM	12.8	709	15	2.1
Anheuser-Busch Cos	18.5	22.1	13.4	32.0	5.4	5.0	NM	80.8	11,949	1,023	8.6
Whitman	15.7*	20.1	11.8	48.4	4.1	6.1	NM	0.0	2,631	104	3.9
Canandaigua Wine	13.4	7.5	6.8	42.8	28.0	105.5	30.0	-43.1	630	12	1.9
Seagram	9.9	9.5	7.8	37.0	5.6	0.5	-8.4	-14.8	5,260	471	9.0
Coca-Cola Enterprises	def	4.8	3.6	54.5	7.6	7.8	NM	D-P	5,846	61	1.0
Dr Pepper/Seven-Up	NE	NE	28.8	183.2	7.4	8.3	NM	29.2	752	85	11.3
Adolph Coors	NA	def	def	21.1	5.2	3.8	NM	P-D	1,644	-27	def
Snapple Beverage	NA	38.1	32.8	5.9	118.8	51.4	NA	NA	686	61	8.9
Medians	17.1	21.1	12.4	39.9	7.9	7.0	NM	12.8	2,138	95	7.4
Tobacco											
UST Inc	58.8	79.2	73.6	9.5	13.0	8.7	19.6	7.8	1,158	375	32.4
Philip Morris Cos	34.4	34.3	17.9	53.7	12.7	2.5	14.5	-9.4	52,248	3,972	7.6
Monk-Austin	20.4	def	def	19.3	18.8	-23.3	NM	P-D	463	-8	def
American Brands	19.5	15.3	11.3	33.8	3.7	2.1	5.0	-9.3	8,555	650	7.6
Universal	19.5*	6.6	5.8	43.0	5.0	1.0	NM	-66.2	2,940	26	0.9
Dibrell Brothers	17.2	def	def	60.3	7.5	-5.9	NM	P-D	925	-15	def
Loews	11.0	5.3	4.7	24.9	4.4	-3.7	-4.2	D-P	12,339	327	2.7
Std Commercial	0.6	def	def	40.7	4.5	-5.0	NM	D-D	1,055	-21	def
RJR Nabisco	0.6*	def	3.5	41.1	4.7	1.5	NM	P-D	15,373	173	1.1
Brooke Group	NE	NE	def	NE	8.4	-26.8	NM	D-P	418	28	6.8
Medians	18.4	2.6	4.1	37.3	6.3	-1.3	NM	-37.8	2,049	101	1.9
Industry medians	15.9	14.1	10.6	38.1	6.4	4.3	-8.7	1.7	1,644	61	3.3
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Can Conservative Management Lead to Financial Strength in Today's Banking Environment?



*A*t Republic National Bank, the answer to that question is an unequivocal YES. The proof is in our reviews.

In the June 24, 1994 analyst's report, S First Boston notes: *"In our opinion, Republic has developed a flexible entrepreneurial approach in meeting clients' needs."*

In addition, RNB has approached new

business both cautiously and prudently, making sure the product provides consistent profitability and generous spreads. Along these same lines, we believe RNB has made a strategic commitment to internally expanding its domestic private banking business."

Cautious in risk management. High productivity. Traditional banking values that help build a strong financial institution.



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Forest products & packaging

The spotted owl has helped keep lumber prices high. New environmental rules may do the same for pulp and paper manufacturers.

By Stephen S. Johnson

The story in forest products is much the same as for the other raw materials industries analyzed in this survey. Producers were working close to, or at, capacity and bumping up prices pretty much across the board. Prices of pulp and many grades of paper rose to record levels in 1994. Northern softwood kraft pulp, for example, jumped nearly 70%, from \$415 per ton to \$700 per ton, and is expected to increase another \$50 in January. Europe is also recovering, which means less European paper will enter the U.S. Pulp and paper companies Bowater, Union Camp and Weyerhaeuser will benefit.

When things get good for the pulp and paper makers, the companies usually overexpand. But this time new

environmental laws concerning the bleaching process in pulp and paper manufacturing may put some expansion plans on hold. The laws may go into effect in 1995 and could cost the industry over \$11 billion, according to the American Forest & Paper Association. Some firms may decide not to increase capacity, in which case supply will remain fairly tight and prices fairly high.

Washington's restrictions on logging on federal lands continued to crimp supply and hold the price of framing lumber around \$400 per thousand board feet, down from \$490 in early 1994. Interest rates—which began rising early last year—have yet to hurt housing starts, which averaged 120,000 per month for the first ten months of

Packaging profits

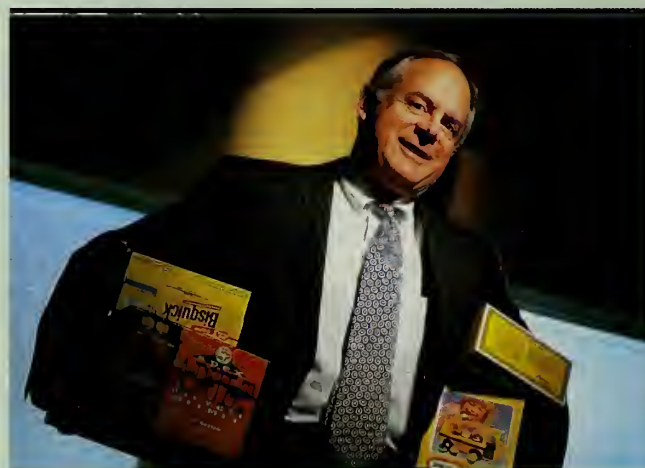
When you buy Duracell batteries, IBM computer equipment or a Walt Disney video, there's a good chance the packaging was made by Richmond, Va.-based Chesapeake Corp., a leading specialty packaging and paper company.

In 1994 over a third of Chesapeake's estimated \$1 billion in sales was accounted for by packaging, mostly specialty packaging, up from 29% in 1993. Expanding in specialty packaging is good for Chesapeake for several reasons. The segment is growing more rapidly than other segments of the business. Less prone to economic swings, it helps even out Chesapeake's cyclical profits from making paper. Specialty packaging is also less capital intensive than other paper sectors.

Operating income for Chesapeake's packaging segment rose 18% for the nine months ended Sept. 30. Contributing to the

performance was Buffalo-based Lawless Packaging & Display, which Chesapeake acquired last January. Other paper companies, notably International Paper, are moving into the specialty packaging business, but Chesapeake Chief Executive J. Carter Fox isn't worried. "We understand the business and are more focused than the others," he says.

Fox isn't taking his eye off Chesapeake's old-line papermaking operations, especially kraft paper, where operating rates are nearing 100% of capacity and profits are gushing again. Kraft products contribute 39% of sales. Chesapeake is a market leader in mottled white paperboard, which makes up 80% of total paperboard output and is its biggest earner when orders are strong. Recently going for \$560 a ton, this fancier paperboard sells at a \$135-per-ton premium to brown paperboard, used in such products as de-



partment store gift boxes.

Chesapeake has brought on stream 250,000 tons of kraft papermaking capacity—mostly white linerboard—since 1988, bringing its total capacity to 850,000 tons. In the year ahead Chesapeake will spend over \$125 million on capital expansion.

Thanks to productivity enhancements, Chesapeake ranks near the top of its industry in earnings leverage. For example, with every \$30-per-ton price

J. Carter Fox of Chesapeake
Unfazed by competition.

increase in its linerboard business, Chesapeake can take in an additional 15 cents per share in earnings. A price increase of \$50 per ton has been announced for January.

In 1994 Chesapeake earned around \$40 million or \$1.75 a share. With strong pricing forecast for the paper industry, Wall Street thinks Chesapeake will earn more than \$3 a share in 1995. —S.S.

1994. The timber harvesting restrictions may not ease under the newly elected Republican Congress. This will continue to help timber-rich companies such as Weyerhaeuser, International Paper and Georgia-Pacific Corp.

In paper packaging, strong demand from manufacturers throughout the economy pushed prices for linerboard (the basic material for corrugated boxes) from about \$320 per ton in late 1993 to about \$430 per ton in November 1994. Even waste corrugated cardboard was up from \$25

per ton last January; it is now \$75 per ton.

As for the container industry, glass continued to lose market share, while aluminum and plastic continued to gain. U.S. packaging companies such as Owens-Illinois, Ball Corp. and Crown Cork & Seal are entering foreign markets, particularly in Latin America, where demand for disposable containers is growing rapidly. Owens-Illinois has entered a joint venture in India, while Crown Cork and Ball Corp. are expanding in China.

Forest products & packaging	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Paper & lumber											
Universal Forest Prod	16.6*	15.9	14.4	46.8	13.0	33.2	21.6	-1.7	843	10	1.2
PH Glatfelter	13.4	2.4	1.8	20.9	-3.7	-6.4	-20.2	-60.0	459	11	2.4
Louisiana-Pacific	12.3	18.9	15.3	7.4	5.5	21.8	NM	25.1	2,927	322	11.0
Willamette Inds	9.8	10.6	7.1	42.2	8.5	11.2	-15.8	44.9	2,847	132	4.7
Consolidated Papers	9.5	7.6	6.1	8.3	NM	-0.7	-21.2	19.0	956	72	7.5
Weyerhaeuser	9.0	12.7	6.8	48.3	-1.6	10.4	NM	-2.0	10,256	502	4.9
Federal Paper Board	8.7	3.3	3.9	44.4	4.2	1.8	NM	481.8	1,454	34	2.3
Potlatch	7.7	4.1	3.8	37.7	4.0	5.6	-20.2	13.2	1,426	38	2.6
Westvaco	7.7	2.5	2.8	35.2	1.4	5.2	-21.2	-52.1	2,463	46	1.9
Pope & Talbot	6.5	8.5	6.2	38.3	NM	7.1	NM	-21.6	657	17	2.6
International Paper	6.3	5.9	4.2	33.3	6.9	3.6	-27.4	500.0+	14,185	368	2.6
Albany International	5.8	9.0	6.8	48.3	3.4	-0.6	-30.2	85.0	550	22	4.0
Union Camp	5.8	4.2	3.8	34.8	3.3	6.4	-35.6	60.3	3,267	76	2.3
Mead	5.4	9.6	6.5	45.6	1.1	-5.9	-22.6	28.0	4,511	155	3.4
Chesapeake	4.8	8.3	6.5	42.9	4.0	2.2	-30.4	500.0+	917	31	3.4
Georgia-Pacific	2.5	5.1	4.7	53.5	4.9	5.0	NM	-9.9	12,639	121	1.0
Rayonier	2.0*	9.1	9.5	39.2	-2.3	9.8	NM	D-P	1,031	55	5.4
Champion Intl	def	def	0.7	43.2	-0.7	2.9	NM	D-D	5,153	-69	def
Bowater	def	def	2.1	45.2	NM	-20.5	NM	D-D	1,209	-21	def
Boise Cascade	def	def	def	49.0	-2.0	4.2	NM	D-D	4,029	-112	def
Medians	6.4	6.8	5.4	42.6	2.4	4.6	-33.0	16.1	1,959	42	2.6
Packaging											
Sonoco Products	17.3	16.3	11.2	36.7	3.8	18.0	NM	31.4	2,233	125	5.6
Bemis	16.1	18.4	14.0	27.1	2.6	10.7	4.7	56.5	1,325	69	5.2
Crown Cork & Seal	14.5	10.1	7.9	38.2	19.9	4.0	13.6	-30.0	4,296	126	2.9
Continental Can	12.0	6.2	5.8	58.4	46.2	4.9	-15.5	500.0+	515	4	0.8
Owens-Illinois	10.6†	def	0.7	82.1	1.9	-1.1	NM	P-D	3,585	-188	def
Longview Fibre	10.0	7.7	5.1	41.3	NM	6.2	-18.8	-28.9	741	30	4.1
Temple-Inland	9.5	5.2	4.5	41.6	6.2	3.3	-18.1	3.2	2,856	90	3.1
Greif Brothers	8.8	9.1	8.8	8.5	5.0	6.0	NM	14.0	553	29	5.3
Ball	3.4†	def	1.9	39.1	26.2	5.4	NM	P-D	2,539	-8	def
St Joe Paper	3.0	3.5	3.6	2.7	-2.1	10.5	-33.9	452.6	653	32	4.9
Riverwood Intl	2.7†	3.5	3.7	59.4	11.7	4.8	NA	12.5	1,194	18	1.5
Stone Container	def	def	0.6	75.3	4.5	4.3	NM	D-D	5,370	-244	def
Gaylord Container	def	def	def	100.9	0.9	6.9	NM	D-D	784	-84	def
Sealed Air	NE	NE	28.1	92.3	5.4	10.6	NM	34.4	494	34	6.8
ACX Technologies	NA	4.1	4.0	0.0	7.4	14.9	NA	NA	696	17	2.5
Jefferson Smurfit	NA	NA	4.2	129.3	0.4*	4.5	NA	NA	3,083	-42	def
Rock-Tenn	NA	14.9	13.1	15.0	6.7	8.5	NM	44.0	706	38	5.3
Medians	9.2	4.6	4.5	41.3	5.0	6.0	NM	12.5	1,194	29	2.9
Industry medians	7.1	5.6	4.7	41.6	3.8	5.2	NM	13.2	1,426	32	2.6
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Health

Congress and the public decided not to entrust health care to the social engineers. A sensible decision: Market forces continue cutting medical costs in a big way.

By Matt Walsh

Since 1990, medical price inflation has fallen from 9% to below 5%. This year it will drop even lower. "Close to zero pricing inflation," is the daring forecast of health care analyst Kenneth Abramowitz of Sanford C. Bernstein.

As the people who pay the bills—individuals, corporations, governments—put pressure on prices, businesses responded by reducing their costs. Consolidation driven by cost-cutting swept every segment of health care in 1994. Hospital giant Columbia/HCA acquired Medical Care International, the nation's largest outpatient surgery center operator. Drugmaker American Home Products acquired American Cyanamid, while SmithKline Beecham and Eli Lilly bought big pharmacy benefit managers.

Expect more of the same this year. As hospital bed utilization drops, watch for an increasing number of weak not-for-profit hospital organizations to merge with for-profit hospital companies. Likely targets: teaching hospi-

tals and many of the 1,000 or so Catholic hospitals. Physician-management companies will be among the fastest-growing sectors in health care.

With pressure on its prices, pharmaceutical industry revenue growth will remain at 6%, 1994's rate. Analysts see three tiers forming in this sector. At the top: vertically integrated giants such as Merck, Eli Lilly, SmithKline Beecham, Pfizer, Roche and Glaxo. They'll not only develop and market new drugs but they'll also work increasingly as partners with HMOs and insurers in managing patients' health. Tier two will be niche players, like Upjohn and Schering-Plough; they'll be new-product driven and not as far-reaching globally as the megafirms. Tier three: the biotech, which in joint ventures with big companies will probably develop most of tomorrow's drugs. Meanwhile, mergers will continue. Oft-mentioned targets: Marion Merrell Dow, Upjohn, Amgen.

Avoiding the snorkel award

Kalamazoo, Mich.-based Stryker specializes in the design and manufacture of complex medical gadgets: powered orthopedic surgical tools, medical video cameras, laparoscopes, specialty hospital beds, and hip, knee and spinal implants. In 1991 Stryker Corp. was one of *FORBES'* 200 Best Small Companies, completing its fifteenth consecutive year of 20%-plus per-share earnings growth. "It's 20% forever," Chief Executive John Brown told us.

Three years later this streak is still intact. Since joining Stryker in 1977, Brown has emphasized aggressive selling, and personally reviews the monthly performances of each of Stryker's 400 domestic sales representatives. He also pushes hard for new

products, such as powered micro tools for maxillofacial surgery and a device now being tested that induces bone growth.

Brown keeps his headquarters lean and insists on highly decentralized management. Stryker is organized into nine profit centers, each with its own manager responsible for the unit's profitability, growth and product development. Brown purposely creates intra-company competition, forcing his managers to work hard to avoid the "snorkel award." What's that?

Says Ned Lipes, head of Stryker's osteonics unit: "John was once quoted saying, '20% growth is the watermark. If you're below that, you can't breathe.' We have the snorkel award for people below that."



Stryker chief John Brown
Two decades of 20% growth.

Stryker's no longer on our 200 Best Small Companies list. It has graduated. Brown is looking ahead to 1996, when it should cross the \$1 billion threshold in sales. Won't 20% annual growth become tougher to meet? Says

Brown: "Our businesses are like pieces of a whole. If those pieces can keep growing 20%, so should the whole."

—M.W.

Health Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Drugs											
Merck	49.0	29.2	24.0	7.7	12.5	39.6	14.7	26.6	14,099	2,898	20.6
American Home Prods	47.3	39.3	30.5	17.2	5.3	3.7	6.3	5.2	8,496	1,511	17.8
Schering-Plough	44.2	57.6	46.8	9.1	8.1	6.4	19.6	15.2	4,544	907	20.0
Abbott Laboratories	39.4	40.6	37.1	7.4	11.8	7.6	15.2	11.7	8,902	1,485	16.7
Perrigo	34.7*	20.2	15.9	18.7	27.7	13.0	67.8	11.8	679	55	8.1
Bristol-Myers Squibb	34.3	33.9	30.9	9.6	6.2	4.3	17.9	-11.1	11,729	2,000	17.1
Rhone-Poulenc Rorer	32.4	20.7	15.1	24.0	36.0	-1.1	26.7	-34.3	4,019	311	7.7
Marion Merrell Dow	32.3	21.2	19.6	0.7	29.6	4.3	19.0	14.3	2,997	446	14.9
Warner-Lambert	31.4	26.0	22.7	25.1	8.7	8.6	NM	-41.4	6,230	359	5.8
Glaxo Holdings	29.2	26.5	23.1	4.4	18.0	14.7	14.4	9.2	8,888	1,972	22.2
ICN Pharmaceuticals	24.1	19.8	16.5	7.2	37.8	7.1	19.0	32.9	392	31	8.0
Upjohn	21.5	23.7	18.9	15.7	6.6	-2.3	14.1	39.5	3,625	553	15.3
Eli Lilly	19.6	10.0	8.9	15.4	10.7	9.9	-7.1	-63.5	6,934	472	6.8
IVAX	19.1*	18.6	14.2	31.7	56.1*	8.2	152.3†	9.6	1,016	90	8.9
Pfizer	16.5	28.2	23.8	11.3	7.3	7.2	NM	102.5	7,970	1,253	15.7
McKesson	13.7	15.9	13.2	24.6	12.9	8.0	NM	-11.0	12,922	134	1.0
Bergen Brunswig	12.2	13.3	9.8	42.3	13.9	9.7	-4.5	92.4	7,484	56	0.8
Cardinal Health	12.2†	10.5	8.8	36.3	28.6*	27.6	29.9*	NA	6,318	39	0.6
SmithKline Beecham	11.8	11.9	9.0	15.7	9.3	15.7	NM	34.7	9,492	814	8.6
Bindley Western Inds	10.0	6.4	5.7	28.0	22.0	17.9	13.3	17.9	3,890	11	0.3
Mallinckrodt Group	5.3	10.7	8.2	33.2	12.5	8.7	NM	D-P	1,983	103	5.2
FoxMeyer Health	def	4.3	7.1	37.7	14.0	-0.6	NM	D-P	5,259	36	0.7
Medians	22.8	20.5	16.2	16.5	12.7	8.1	14.3	14.3	6,274	403	8.3
Health care services											
Mid Atlantic Medical	66.8	65.1	63.4	4.7	54.8	12.9	62.2	144.9	714	50	7.0
WellPoint Health	63.9	17.2	17.2	0.0	11.3	13.0	58.7*	26.0	2,703	212	7.8
US Healthcare	54.6	48.5	47.9	1.7	29.1	13.8	75.4	40.3	2,816	375	13.3
Maxicare Health	43.0†	14.3	19.0	0.0	-18.4	1.0	NM	D-P	434	10	2.3
Health Systems Intl	40.9	29.0	14.0	44.6	144.3	16.9	11.1*	-9.8	2,221	46	2.1
United HealthCare	39.0	24.4	26.9	0.0	44.1	54.0	65.6*	35.3	3,373	259	7.7
National Health Labs	34.1	21.7	10.9	75.6	19.9	4.5	10.9	-42.9	807	30	3.7
PacifiCare Health	31.3	25.8	25.4	19.6	34.0	30.3	45.0	34.2	2,893	85	2.9
Foundation Health	24.8	24.5	19.5	25.6	17.9	-1.8	30.8*	28.8	1,607	83	5.2
HealthTrust	23.2†	24.5	14.0	60.9	10.4	24.0	38.2†	22.2	2,970	173	5.8
Manor Care	20.5	18.0	11.0	32.9	13.2	14.4	30.0	16.5	1,200	83	6.9
Quorum Health Group	19.0*	22.9	15.9	42.2	86.1†	111.0	NM	103.8	744	43	5.8
Value Health	19.0*	4.5	5.2	1.2	64.0	69.1	30.3†	-54.8	879	17	1.9
NovaCare	18.3	14.6	10.6	40.2	53.2	41.1	37.8	-4.4	844	56	6.6
FHP International	16.3	13.5	7.8	23.8	28.1	33.3	10.8	19.9	2,851	69	2.4
Hillhaven	13.0*	25.2	9.8	60.9	7.1	4.0	NM	31.3	1,470	62	4.2
Columbia/HCA	12.3†	19.6	11.6	42.3	7.3*	6.0	NM	12.8	10,766	694	6.5
American Medical	10.7	19.7	9.9	52.5	-3.4	6.4	NM	106.9	2,382	139	5.8
Universal Health	10.4	11.9	10.8	17.1	5.0	2.7	32.9	19.3	771	28	3.6
HealthSouth Rehab	9.0	4.5	3.5	69.8	46.4	85.8	NM	-60.8	865	19	2.2
Humana	8.6	17.7	16.7	7.5	35.6	12.0	NM	133.3	3,447	157	4.6
Continental Medical	4.0	def	def	57.1	50.3	6.1	NM	P-D	998	-36	def
Coventry	2.5*	28.0	23.0	21.0	39.2	22.2	6.3	64.7	664	25	3.8
Beverly Enterprises	2.0	9.6	7.5	45.0	7.3	3.9	NM	D-P	2,937	74	2.5
National Medical	def	def	def	13.4	-3.3	-20.5	NM	P-D	2,858	-320	def
OrNda HealthCorp	def†	def	0.8	73.5	8.9	32.5	NM	P-D	1,274	-47	def
Caremark Intl	NA	17.5	17.4	31.4	27.3	31.7	NA	NA	2,250	76	3.4
Charter Medical	NA	def	def	72.3	-7.1	0.8	NA	D-D	905	-47	def
GranCare	NA	12.8	8.7	66.4	140.0	10.9	NA	-44.9	526	10	2.0
Health Care & Retire	NA	12.2	8.7	28.2	10.8	10.6	NA	22.4	602	40	6.7
Kinder-Care Learning	NA	10.4	8.1	43.9	9.6	11.8	NA	NA	498	20	4.1
Physician Corp Amer	NA	26.9	27.5	6.5	74.9	50.8	NM	24.8	741	52	7.1
Medians	18.6	17.6	11.0	32.1	23.6	13.0	10.8	22.3	1,237	51	4.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Health Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Medical supplies											
Johnson & Johnson	30.6	34.7	27.8	18.1	10.2	7.5	14.5	13.4	15,175	1,963	12.9
Dentsply Intl	29.9†	22.0	16.4	15.6	18.4*	-3.3	NA	85.2	533	54	10.1
Medtronic	24.5	24.1	23.1	1.3	14.3	15.8	18.3	22.6	1,540	258	16.8
Stryker	24.4	24.0	22.2	18.4	26.4	14.8	31.3	20.2	622	69	11.1
Hillenbrand Inds	22.7	14.7	13.5	24.0	10.8	6.4	16.6	-24.6	1,531	94	6.1
VWR	17.4	2.3	3.6	60.1	8.8	1.7	-7.6	-87.5	519	1	0.2
Pall	17.3	18.4	16.9	8.0	6.9	2.0	9.9	26.5	701	99	14.1
CR Bard	17.2	28.6	25.4	14.0	6.1	2.4	NM	156.1	1,003	109	10.9
Bausch & Lomb	16.9	10.4	7.8	18.6	13.3	2.4	9.3	-47.6	1,858	97	5.2
Owens & Minor	15.4	3.9	5.6	49.6	11.1	54.0	34.2	-67.5	2,042	6	0.3
Becton Dickinson	14.4	15.5	11.8	30.4	7.2	3.8	3.2	12.5	2,559	227	8.9
Amsco International	13.9*	def	def	48.6	15.7	-7.7	9.7	P-D	480	-51	def
Allergan	13.8	19.7	17.4	15.0	2.6	4.9	NM	-0.6	908	106	11.7
US Surgical	13.7	def	def	27.9	35.3	-16.0	NM	P-D	937	-125	def
Millipore	9.7	14.8	13.2	24.4	NM	-8.4	-5.4	119.8	481	69	14.3
Corning	9.6	6.3	6.5	31.6	13.8	21.9	NM	-39.3	4,580	125	2.7
Perkin-Elmer	9.5*	21.4	20.6	10.6	5.2	2.5	NM	390.0	1,028	65	6.3
Angelica	9.2	6.7	6.6	26.8	5.4	10.1	-7.7	29.1	464	13	2.8
Beckman Instruments	5.6	def	def	26.7	3.3	-1.6	NM	P-D	875	-33	def
Baxter International	4.7	def	def	40.7	7.2	4.9	NM	P-D	9,219	-168	def
Medians	14.9	14.8	12.5	24.2	9.5	3.1	-5.4	6.0	970	69	6.2
Biotechnology											
Amgen	35.0	33.1	30.0	12.9	81.9	19.3	NM	0.3	1,571	406	25.9
Diagnostic Products	16.4	11.6	11.9	0.0	18.3	8.7	NM	-6.8	115	15	12.8
Life Technologies	14.9	15.9	15.8	0.0	10.8	11.9	2.9	5.4	228	18	7.7
Biogen	8.1	def	def	0.0	49.4	-10.4	NM	P-D	137	-10	def
Collagen	7.5	10.3	9.1	0.0	6.1	25.7	NM	-52.5	68	5	8.1
Immucor	7.0	2.7	3.2	0.0	27.6	-2.4	-10.4	-42.1	29	1	2.8
Genentech	1.6	10.8	10.2	10.5	12.1	20.2	NM	169.2	708	124	17.6
Applied BioScience	1.1	def	def	31.6	31.9	-1.7	NM	D-D	167	-13	def
Genzyme	def	def	def	26.6	69.5	12.0	NM	P-D	295	-16	def
Genetics Institute	def	def	def	0.0	29.3	37.7	NM	D-D	132	-7	def
Molecular Biosystems	def	def	def	16.2	-12.3	271.3	NM	D-D	15	-14	def
Synergen	def	def	def	0.0	29.8	-21.5	NM	D-D	14	-110	def
Vertex Pharmaceutical	def†	def	def	4.5	121.1†	197.8	NM	D-D	32	-4	def
MedImmune	def†	def	def	5.2	22.1*	99.1	NM	D-D	19	-15	def
Gilead Sciences	def*	def	def	6.0	45.8†	19.7	NM	D-D	5	-29	def
Repligen	def	def	def	0.0	29.4	-14.6	NM	D-D	19	-23	def
T Cell Sciences	def	def	def	0.0	NM	-11.2	NM	D-D	8	-9	def
Scios Nova	def	def	def	1.5	25.3	9.6	NM	D-D	53	-34	def
US Bioscience	def	def	def	0.0	NM	20.6	NM	D-D	6	-38	def
Alliance Pharmaceut	def	def	def	0.0	-19.5	208.2	NM	D-D	5	-37	def
Sepracor	def†	def	def	10.1	72.1	-24.9	NM	D-D	12	-27	def
Chiron	def	5.1	3.9	38.6	63.4	44.7	NM	P-D-P	413	28	6.8
Gensia	def*	def	def	1.5	NM	85.5	NM	D-D	55	-66	def
Centocor	def	NE	def	103.2	9.2	-4.8	NM	D-D	75	-91	def
Cell Genesys	NA	def	def	4.4	NA	43.2	NM	D-D	9	-14	def
Cephalon	NA	def	def	11.9	NM	18.2	NM	D-D	19	-32	def
Medians	def	def	def	3.0	25.3	18.8	NM	D-D	43	-14	def
Industry medians	17.3	17.9	13.4	24.2	12.7	8.1	9.5	16.5	1,921	72	5.8
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

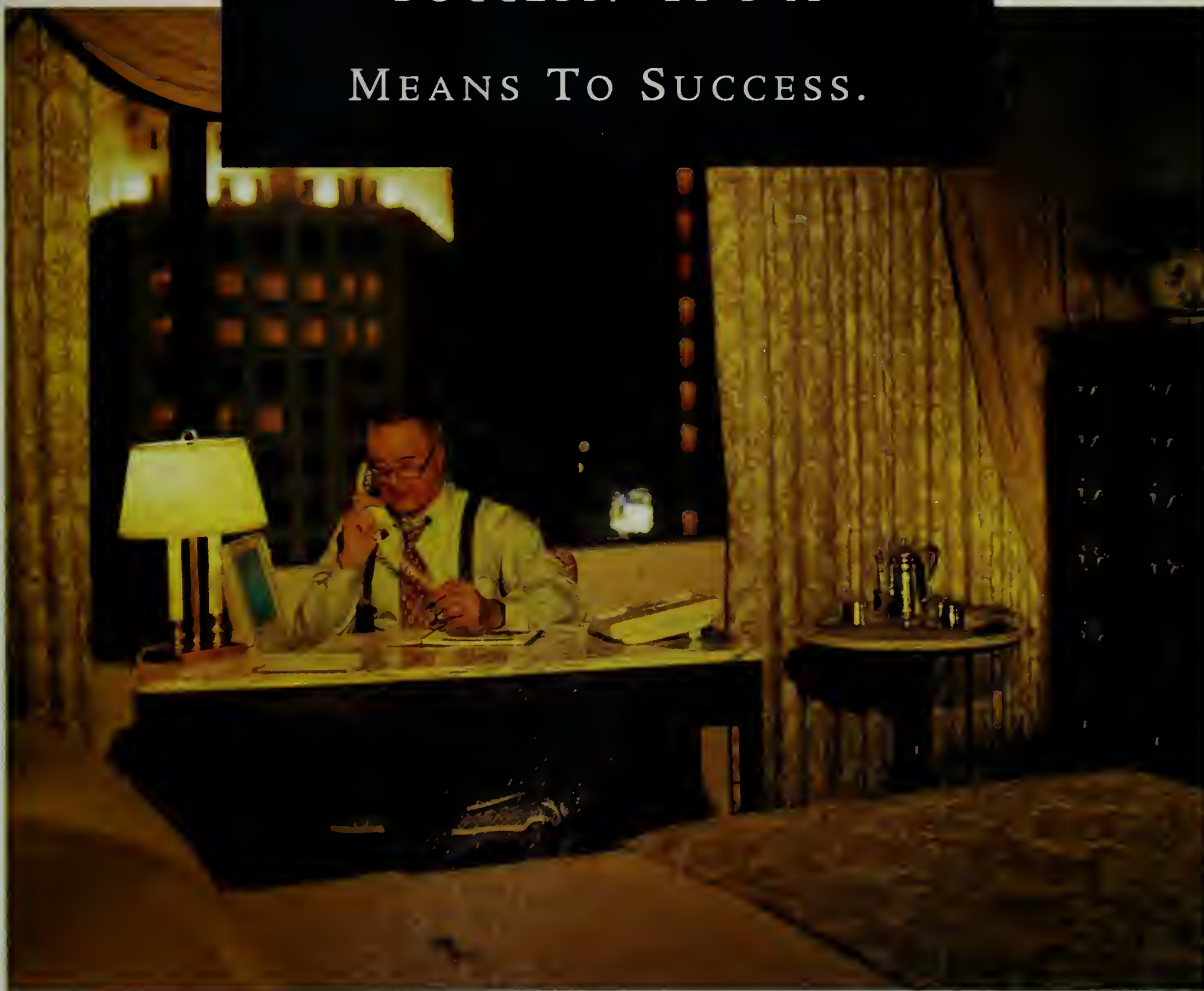


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Insurance

Last year brought more trouble for property and casualty insurers, more consolidation for life and health companies.

By Carolyn T. Geer

Catastrophe insurance claims reached a record \$23 billion in 1992. Just as the property and casualty companies were recovering, the California earthquake hit last January, followed by devastating winter storms in the Midwest and East. Total 1994 catastrophe claims: \$13.3 billion and counting. "It has been depressing being an insurance analyst," laments Michael Smith, who follows the property and casualty companies for Lehman Brothers.

The bellwether combined ratio—claims and expenses to premiums—for property and casualty companies jumped to an estimated 111% for 1994, after dipping to 107% in 1993. Premium income growth, which climbed to 6% in 1993, could drop as low as 3% for 1994. The commercial

insurance market is particularly soft, as weak carriers desperately slash prices to attract business. And investment income again failed to pick up the slack.

With so much bad news already out, it's probably a good time for patient investors to consider property and casualty stocks—indeed, as 1994 ended, Chicago's CNA Financial Corp. offered \$1.1 billion cash for New York-based Continental Corp. The deal, pending regulatory approval, will create the country's seventh-largest insurer.

Best bets for the year ahead: strongly capitalized, well-managed carriers such as American International Group, Chubb Corp. and St. Paul Cos. Investors will want to be in the stocks before the market hardens, whenever that

The road less traveled

Just after World War II, when other insurers were peddling standard life and casualty policies through traditional insurance agents, newly formed American Bankers Insurance Group started selling credit insurance to middle-class Americans through banks, finance companies and auto dealers. Credit insurance covers your debts if you die, get sick or lose your job. It also insures goods purchased on credit or pledged as loan collateral.

Fifty years later, \$2.2 billion (assets) American Bankers is the leader in the \$5 billion credit insurance business. "They've created more products than anyone," says Fort Worth actuary Gary Fagg.

These days the company sells most of its credit insurance through retailers, like Bridgestone and Tandy, and commercial



R. Kirk Landon of Miami-based American Bankers
Next stop, Mexico.

banks, like Chemical and Chase. Chase card holders recently got an offer in their monthly statement: Customers tick off a box, and the premiums—typically, 60 cents per \$100 in outstanding balance per month—are automatically added to their bills.

"There's a great sense of convenience to it," says American Bankers Chief Executive R. Kirk Landon, 65, son of the company's founder.

There's also little risk

to American Bankers. It has profit-sharing or reinsurance arrangements with its distributors, in effect sharing the underwriting risk with them.

One of its newest products is a property and casualty policy for renters. The sales hurdle here? "There's no [traditional] distribution force that can economically sell it to the public," Landon says.

"We're beginning to market it through property management companies,

who are already collecting rents and seeing these people [renters]."

Revenues at American Bankers grew 24% in 1993, and 31% in the latest 12 months—when sales at many diversified insurance companies were flat. Despite this performance, American Bankers' stock, recently at 20 per share, is off 33% from its October 1993 high; it sells for less than seven times estimated 1995 earnings, or at book value.

Robinson-Humphrey Co. analyst Thomas Rosenkrantz, who's followed American Bankers for nearly 20 years, says it's now in its strongest position ever. Consumers have been borrowing more to buy more durable goods, boding well for credit insurance sales. Meanwhile, competitors such as John Hancock and Aetna have been quitting the credit insurance market. And Landon will soon start selling credit insurance in Mexico.

—C.T.G.

happens, says Lehman Brothers' Smith. Reinsurers are another possibility. Companies such as General Re, American Re and National Re are insulated from the volatile underwriting cycle—though not, of course, from claims.

Life and health insurers fared much better than the property and casualty underwriters. Their median return on equity topped 13% in the latest 12-month period. Carriers accelerated their shift from traditional life insurance to retirement savings products. Annuities probably

accounted for half of all sales in 1994; variable insurance, around 20% of new life premiums. There's plenty of risk to watch for here. Robert Stein, head of Ernst & Young's insurance consulting group, says savings products are less profitable for insurers than traditional whole life policies. And they put insurers in competition with banks and mutual funds, which have less costly distribution systems.

Life companies likely to do best in 1995 are those with low-cost distribution channels. Examples: John Alden,

Insurance Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Diversified											
Leucadia National	26.4	7.7	7.4	31.6	19.4	-6.8	35.1	-49.4	1,349	72	5.4
Horace Mann Educators	21.8*	15.5	13.5	22.1	3.3*	0.3	NM	-11.8	709	67	9.5
American Bankers	16.6	13.2	13.4	18.7	6.7	30.5	20.0	2.7	1,172	55	4.7
Old Republic Intl	16.0	11.9	11.0	13.8	9.9	5.2	22.6	1.9	1,755	158	9.0
American Intl Group	15.7	13.9	10.6	37.9	9.3	11.4	7.8	13.3	21,885	2,108	9.6
Safeco	15.4	12.6	11.4	15.6	6.2	2.8	7.6	-12.9	3,532	349	9.9
Lincoln National	11.4	7.0	7.0	8.7	3.0	-10.5	16.5	-39.7	7,333	288	3.9
Unitrin	6.7	5.2	5.1	0.0	3.9	1.8	-5.2	-15.0	1,378	108	7.8
Cigna	6.2	8.6	8.1	19.1	4.8	3.0	-9.0	500.0+	18,609	566	3.0
CNA Financial	3.5	0.4	0.9	16.1	6.2	-0.9	-12.2	D-P	10,888	28	0.3
Independent Insurance	3.1	0.8	0.8	0.0	NM	-22.0	-23.6	D-P	376	2	0.6
Aetna Life & Cas	1.0	def	def	15.8	-1.5	0.4	NM	P-D	17,298	-824	def
Medians	13.4	8.1	7.7	16.0	5.5	1.1	1.2	-5.0	2,644	90	5.0
Life & health											
Conseco	47.4	18.7	14.8	44.7	33.6	-19.8	57.1	-27.5	1,827	215	11.8
National Western Life	27.7	20.1	20.1	0.0	20.2	-11.3	NM	-8.4	347	49	14.0
Torchmark	27.3	21.3	14.5	38.6	6.1	-5.3	12.3	14.3	2,003	291	14.5
Western National	20.6*	13.2	14.2	26.0	11.3	-1.2	21.5*	-17.2	705	103	14.6
Aflac	19.5	20.6	19.4	9.5	17.1	22.6	20.3	25.9	5,809	282	4.9
First Colony	18.6	14.8	12.6	14.5	15.8	-1.8	23.3	-21.0	1,470	153	10.4
Southwestern Life	18.1	def	def	53.8	-15.1	-28.2	NM	P-D	615	-46	def
Protective Life	16.6	19.2	15.0	23.5	20.3	13.5	26.2	44.0	819	70	8.6
SunAmerica	16.4	18.1	12.6	33.3	6.8	2.3	38.3	30.2	888	165	18.6
Equitable of Iowa	16.4	18.9	17.5	0.0	NM	20.5	34.1	23.4	639	99	15.5
Providian	16.0	13.5	11.7	21.2	6.3	2.0	8.6	2.2	2,934	323	11.0
UNUM	15.9	8.8	8.5	8.2	14.0	11.2	22.4	-36.2	3,565	184	5.2
Aon	14.7	15.8	13.5	13.3	12.2	7.6	4.3	45.9	4,054	352	8.7
Jefferson-Pilot	12.7	13.7	13.6	0.0	2.2	6.7	19.6	14.8	1,306	236	18.1
Liberty Corp	11.9	12.0	11.3	34.0	6.2	13.1	13.1	9.9	525	54	10.3
NWNL Cos	10.4	12.8	11.4	13.5	NM	6.1	7.1	19.7	1,547	100	6.5
American General	9.6	6.3	5.6	56.9	4.1	2.5	NM	-40.3	4,926	314	6.4
Transamerica	9.2	11.8	8.0	69.6	-6.2	5.3	NM	5.1	5,214	359	6.9
American Natl Ins	8.9	9.9	9.8	0.0	7.7	0.6	13.3	6.0	1,359	193	14.2
USLife	8.7	10.2	8.9	27.9	7.8	4.3	7.7	19.7	1,646	100	6.1
Kemper	6.3	11.1	9.6	24.0	-7.9	24.2	NM	D-P	1,744	183	10.5
Provident Life & Acc	4.7	12.8	11.3	12.8	2.1	-3.6	NM	D-P	2,806	172	6.1
Washington National	4.1	10.5	10.3	0.8	-5.2	5.6	NM	27.6	649	36	5.5
Uslico	1.8	7.5	7.0	27.2	NM	1.0	-10.9	D-P	405	21	5.1
Pioneer Financial Svcs	0.2	18.5	12.2	38.7	19.8	14.7	NM	D-P	775	16	2.1
Bankers Life Holding	NA	26.7	19.1	36.2	9.8	2.0	NA	14.2	1,450	136	9.4
CCP Insurance	NA	15.4	12.6	23.1	NA	-15.0	NA	-21.9	526	85	16.1
Emphesys Finl Group	NA	NA	17.4	15.7	13.4*	NA	NA	NA	1,421	59	4.1
Equitable Cos	NA	11.8	6.6	42.6	0.8*	6.9	NA	NA	6,525	324	5.0
John Alden Financial	NA	22.5	19.0	14.9	11.1	9.5	66.7*	5.5	1,475	84	5.7
Medians	14.7	13.5	12.4	23.3	6.8	4.3	10.4	14.3	1,460	145	8.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

which sells low-load insurance through fee-only planners; American Bankers, which sells credit insurance through retailers and banks (*see box, p. 184*); and NWNL Cos., which sells annuities via payroll deduction.

Consolidation was an important feature of the life and health insurance business last year. The driving force: efficiency. NWNL agreed to merge with Uslico, drawn by that company's payroll deduction business and the chance

to cut costs by combining back offices. Met Life and Travelers combined their group health businesses to create one of the largest health insurers in the U.S.

Consolidation will go on. Life insurers will need lower back office expenses to compete with banks and mutual funds. Health insurers will need to increase enrollments to be able to negotiate low rates with doctors and hospitals. Restructuring is alive and kicking in the marketplace. ■

Insurance Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Property & casualty											
Commerce Group Inc	35.7	28.7	28.7	0.0	38.0	17.0	37.1	2.8	693	110	15.9
Fidelity National	34.3	21.5	18.2	52.8	33.0	3.4	56.6	-17.1	551	25	4.6
Progressive	30.5	23.2	17.5	38.3	9.2	20.4	19.6	-14.5	2,260	227	10.0
Mercury General	28.4	16.8	16.3	3.1	2.2	6.0	28.2	-22.3	557	75	13.5
20th Century Inds	24.6	def	def	48.5	12.2	10.6	11.7	P-D	1,191	-427	def
Allied Group	20.3	25.5	15.6	4.7	21.6	3.9	29.9	24.1	496	46	9.4
Orion Capital	19.7	14.1	12.4	22.8	-2.7	9.3	17.8	5.1	765	56	7.3
Geico	19.5	12.8	11.2	19.6	7.7	4.0	6.4	-21.0	2,676	203	7.6
First American Finl	18.2	14.7	12.8	20.0	16.5	12.9	38.1	-22.2	1,485	42	2.9
General Re	17.3	13.2	12.9	0.4	5.8	5.0	7.7	-4.1	3,730	636	17.1
Argonaut Group	16.1	11.9	11.8	0.0	-3.7	-3.9	3.1	11.2	414	86	20.9
Allmerica Prop & Cas	16.0	8.4	8.4	0.0	4.7	1.0	15.6	-59.1	1,991	101	5.1
Transatlantic Holding	15.7	12.4	12.4	0.0	6.2	34.9	12.6	7.8	917	96	10.4
Fremont General	15.0	13.8	9.0	55.5	9.3	2.5	28.8	11.7	651	54	8.2
Chubb	14.2	12.1	10.2	22.5	6.8	3.9	NM	38.7	5,648	533	9.4
Harleysville Group	13.7	6.9	6.1	26.9	12.0	17.9	5.8	-30.4	517	19	3.6
Hartford Steam Boiler	13.6	15.3	14.1	8.4	8.4	-6.9	-24.0	188.4	610	51	8.3
Ohio Casualty	12.7	11.8	10.8	7.2	2.7	-9.2	NM	0.9	1,573	102	6.5
Cincinnati Financial	12.4	10.1	10.1	3.9	9.8	6.3	9.6	4.5	1,500	202	13.5
Foremost Corp of Amer	12.1	13.9	10.8	33.5	0.5	0.2	41.0†	-2.1	461	30	6.4
WR Berkley	11.9	5.4	6.6	29.7	1.5	30.5	NM	-39.1	756	36	4.8
Zenith National Ins	11.7	11.6	10.8	19.0	4.7	0.5	NM	5.4	587	41	7.0
Alleghany	10.6	10.7	9.0	35.9	14.5	7.2	13.8	12.8	1,954	100	5.1
St Paul Cos	10.5	13.1	11.6	16.0	4.8	7.1	6.0	D-P	4,700	412	8.8
Selective Insurance	10.4	10.6	9.8	25.6	6.9	11.4	-11.9	68.2	745	34	4.6
American Premier	9.3	1.5	2.7	23.6	23.8	11.5	24.6	-87.8	1,903	26	1.4
Berkshire Hathaway	7.9	9.0	8.4	8.3	8.9	34.1	8.9	108.1	4,127	927	22.5
ITT	7.3	11.9	6.4	26.8	2.5	3.7	4.0	500.0+	22,666	944	4.2
Continental Corp	4.3	def	def	32.1	-3.7	-0.8	NM	P-D	5,081	-294	def
Reliance Group	1.4	8.4	7.5	67.5	-3.7	7.6	NM	D-P	3,131	45	1.4
USF&G	def	16.2	14.1	21.5	-7.1	-2.3	NM	441.0	3,167	229	7.2
Allstate	NA	5.6	5.4	8.9	6.8	2.5	NA	-39.0	21,317	580	2.7
American Re	NA	11.1	8.9	46.2	4.4	16.3	NA	-1.6	1,668	92	5.5
Lawyers Title	NA	9.7	8.5	0.0	2.3	11.7	NA	-35.7	533	17	3.2
TIG Holdings	NA	4.3	4.3	0.0	1.9	-8.7	NM	D-P	1,764	53	3.0
Medians	13.7	11.9	10.2	20.0	6.2	6.0	8.3	2.8	1,500	75	6.5
Brokerage											
Marsh & McLennan Cos	30.6	27.3	22.3	22.3	6.6	8.7	1.7	14.3	3,357	372	11.1
Crawford & Co	23.9	19.4	18.8	0.3	15.2	-3.1	14.2	0.0	583	40	6.9
Alexander & Alexander	def	def	def	25.0	2.0	0.1	NM	D-D	1,338	-22	def
Medians	23.9	19.4	18.8	22.3	6.6	0.1	1.7	0.0	1,338	40	6.9
Industry medians	14.2	12.1	10.9	19.8	6.2	3.9	7.7	5.1	1,480	100	6.9
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: *Forbes*; Value Line Data Base Service via OneSource Information Services.



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Metals

Much to their customers' displeasure, the steel companies aggressively raised prices last year and may repeat the trick this year—Alan Greenspan willing.

By James R. Norman

Wall Street has been punishing steel, copper and other metals stocks in recent months, anticipating higher interest rates and a slowing economy. From their recent peaks late last summer, Bethlehem's and National Steel's stocks lost more than a quarter of their value. But, unless we have a sharp recession, strong demand for metals will continue, with many firms running at full capacity.

As the new year opens, analysts expect U.S. steel shipments, which last year ran at their highest pace in 15 years, will hold up again this year at about 92 million tons, paced by automotive and construction demand. That has allowed the U.S. mills to jack up prices an average 5% in 1994, and they are likely to make another 5% increase stick in 1995—despite howls of pain from such customers as General Motors. Coupled with years of cost-cutting and new investment, another round of price hikes would let integrated steelmakers like USX, LTV and Inland post sharp profit increases in 1995. Earnings at minimills like Nucor and Birmingham Steel should also rise, but not as much, because of the high cost of scrap. "As long as the auto market stays strong, this industry will do well," says analyst Peter Anker at NatWest Securities.

Elsewhere in metals, new copper mines have come on

stream, but copper prices could remain at their current strong level of nearly \$1.30 per pound. Reason: tight inventories and another year of 5% world demand growth, in developing countries, Europe and Japan. The primary beneficiaries would be Phelps Dodge, Asarco, Magma Copper and Cyprus Amax Minerals.

Aluminum nearly doubled in price over the past year and may keep climbing because of brisk world demand. Some analysts forecast ingot prices of up to \$1.50 a pound this year—almost double the price last fall. Once-huge stockpiles have dwindled, thanks to an agreement in early 1994 by major U.S. producers to close some smelters in return for curbs on Russian exports. Even if some of those smelters restart, the price outlook is bullish, says NatWest's Peter Anker. Reynolds and Alcoa should have good years.

What about nickel? Inventories are high, but prices are rising as demand grows for stainless steel—particularly in auto exhaust systems. Canada's Inco will benefit.

Precious metals look less bullish. Gold, recently \$375 an ounce, may have a tough time surpassing \$400 per ounce. Rising interest rates will probably boost its carrying costs. Industrial demand will remain price-sensitive.

Back in the race

As the country's smallest integrated steelmaker (just 1 million tons of production and \$500 million in sales), Acme Metals Inc. has lived on borrowed time. Its old mill near Chicago is the last major mill to cast metal only in ingots rather than continuous slabs.

Spun off from Interlake Corp. in 1986, Acme survived by wrangling labor concessions, tweaking old machinery and acquiring niches in tubing, car jacks and steel strap-ping. But without capital to modernize, Acme's basic steel business and its 1,700 jobs looked doomed.

Until now. When rising steel prices and profits

pushed up steel stocks last year, Acme Chairman Brian Marsden, 63, struck while the iron was still hot. He floated 5.6 million new shares at \$21 each last summer to Canadian investors. That raised \$112 million, doubling Acme's equity base. He then borrowed \$255 million to fund a \$370 million effort to transform Acme from one of the industry's highest-cost producers to among the lowest.

Marsden is betting the company on the latest process for casting steel directly into thin (2-inch-thick) slabs. This method takes less time, energy and labor than rolling out standard 8-inch-thick slabs.

Acme should thus be



able to make sheet steel as cheaply as new minimills do—but with much higher quality. Its metal comes from a blast furnace rather than scrap melted in an electric arc furnace. "The technical risk will be minimal," insists Marsden. "And we know the market is there."

Acme Metals' Brian Marsden
A make-or-break bet.

The new plant should open in late 1996. Steel analyst David J. McCracken of Toronto-based Nesbitt Burns thinks Acme could earn \$5 a share in 1997 versus \$2 a share in 1994.

—J.R.N.

Metals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Steel											
Allegheny Ludlum	21.6	4.2	4.1	26.4	-2.6	-6.6	-14.9	-75.5	1,017	17	1.6
Worthington Inds	17.0	19.3	16.0	8.4	5.6	16.1	7.0	23.0	1,341	90	6.7
J&L Specialty Steel	13.7†	19.5	11.7	35.2	-4.9	1.4	NA	27.4	674	51	7.5
Oregon Steel Mills	13.4	1.9	3.0	27.8	27.0	37.2	-10.4	-51.8	799	5	0.7
Nucor	12.6	20.6	15.0	15.2	13.7	35.3	NM	65.1	2,788	186	6.7
Carpenter Technology	10.6	16.0	9.8	31.7	NM	15.7	NM	53.4	655	40	6.2
Lukens	10.5	0.7	2.6	37.1	7.8	-0.8	-17.4	-93.7	897	4	0.4
Commercial Metals	9.2	11.0	9.2	23.6	6.5	6.9	NM	19.7	1,666	26	1.6
Birmingham Steel	7.9	8.7	7.4	22.9	6.9	73.8	NM	143.0	796	30	3.7
AM Castle & Co	6.5	18.4	11.4	34.9	-2.4	10.8	-15.0	151.5	514	13	2.5
Quanex	6.2	4.6	5.8	34.2	5.0	8.1	-40.9	D-P	663	15	2.2
Central Steel & Wire	4.7	10.7	10.7	0.0	-5.8	16.6	-36.5	228.2	572	14	2.5
Lone Star Tech	4.6	def	def	46.9	-13.5	-1.4	-58.0†	P-D	346	-8	def
Texas Industries	4.1	11.2	8.1	29.3	NM	17.8	NM	500.0+	739	35	4.8
Acme Metals	2.8	15.7	15.9	56.0	NM	14.9	NM	414.9	500	15	3.0
WHX	0.1†	20.9	12.2	29.8	-2.9	14.7	NA	D-P	1,137	82	7.2
Geneva Steel	def	def	def	66.6	-2.1	4.5	NM	D-D	486	-17	def
Intermet	def	4.6	3.8	50.8	2.7	6.3	NM	D-P	471	3	0.7
Weirton Steel	def	68.6	10.2	87.6	-4.1	6.8	NM	D-P	1,258	21	1.7
Inland Steel Inds	def	3.0	6.8	42.3	-2.4	15.5	NM	D-P	4,319	51	1.2
USX-US Steel	def	42.2	13.7	60.0	-6.0	12.5	NM	D-P	5,971	235	3.9
National Steel	def	def	4.0	68.2	-1.9	5.7	NM	D-D	2,542	2	0.1
Bethlehem Steel	def	def	def	38.4	-5.9	13.0	NM	D-D	4,725	-193	def
Armco	def	NE	def	277.7	-10.4	-21.7	NM	D-D	1,466	-23	def
AK Steel Holding	NA	NA	34.0	95.5	NM	NA	NA	NA	1,883	95	5.1
LTV	NA	NA	47.3	17.8	-4.4	11.2	NA	NA	4,441	334	7.5
Northwestern Steel	NA	17.9	9.9	74.2	3.5	11.9	NM	D-P	604	10	1.7
Medians	4.6	10.7	9.2	35.2	-2.6	11.6	NM	65.1	897	17	2.2
Nonferrous metals											
Newmont Mining	34.2	10.7	10.0	29.9	3.6	-2.4	-16.9	-11.5	600	76	12.7
Freeport-McMoRan	20.6	0.0	7.1	48.1	-4.1	24.0	NM	D-P	1,907	34	1.8
Broken Hill	18.9	15.4	9.2	28.8	8.1	3.8	NM	-21.2	12,433	935	7.5
Phelps Dodge	16.2	12.2	9.2	19.1	1.0	13.3	-12.5	17.0	2,941	249	8.5
Inco	11.4	def	def	34.7	-9.4	0.3	-49.5	P-D	2,232	-128	def
Engelhard	7.7	4.5	4.6	15.7	-1.8	7.0	-33.6†	-77.0	2,309	23	1.0
Maxxam	7.4	NE	def	95.9	20.4	-1.1	NM	D-D	2,081	-156	def
Tredegar Industries	5.0*	22.1	13.8	14.3	-7.3	9.3	NM	178.9	492	37	7.5
Magma Copper	3.6	8.8	6.7	32.0	5.8	3.0	-19.7	112.8	818	60	7.3
Handy & Harman	3.3	16.7	8.8	61.8	NM	21.3	NM	58.0	760	15	2.0
Alcoa	2.5	def	3.0	17.2	-2.5	4.1	NM	P-D	9,573	-12	def
Alcan Aluminium	1.4	def	1.5	27.7	-3.9	7.8	NM	D-D	7,814	-14	def
Asarco	0.9	0.2	1.5	32.4	-3.5	6.0	NM	D-P	1,879	3	0.2
Cyprus Amax Minerals	0.3	2.6	4.2	33.8	3.0	59.5	-23.5	-80.1	2,599	100	3.9
Reynolds Metals	def	def	def	45.8	-1.7	6.0	NM	D-D	5,587	-186	def
Homestake Mining	def*	15.7	10.3	18.3	2.5	-2.2	NM	500.0+	673	81	12.0
Alumax	NA	def	def	44.1	-1.9	7.4	NA	NA	2,575	-75	def
Medians	4.3	2.6	4.6	32.0	-1.8	6.0	NM	-16.3	2,232	23	1.8
Industry medians	4.6	6.7	7.3	34.0	-2.4	7.8	NM	27.4	1,300	19	1.9
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Retailing

Retailing's new darlings are huge discount stores and electronics chains. A big disappointment: home shopping. On the endangered list: midsize department stores.

By Zina Moukheiber

When Wal-Mart and Kmart experimented with hypermarket stores in the late 1980s, results were disappointing. The stores sold groceries and general merchandise but were so big—between 220,000 and 260,000 square feet—that many shoppers felt lost in them.

The appeal to the retailers of bigger stores didn't die,

however. Almost a decade later Wal-Mart and Kmart are taking another crack at one-stop shopping, this time with smaller "supercenter" stores of between 150,000 and 220,000 square feet. So far, customers seem to like them. Wal-Mart already operates 119 supercenters and plans to open 100 more this year. Most will be replacing existing

"We have fanatical service"

If you don't believe that superior service can make even a commodity business like office supplies more profitable, check out Los Angeles-based Viking Office Products. A mail-order outfit that sells everything from pencils and thumbtacks to office chairs and computer accessories, Viking has earned an average 21% on equity during the past five years, versus Office Depot's 12% and Staples' 9%.

Viking Chairman Irwin Helford, 60, uses low promotional prices to attract customers—mostly small- to medium-size businesses. But overall his prices are slightly higher than those of discounters such as Office Depot and Staples. "It takes low prices to attract customers' attention, but it's not the lower prices that keep them," he says.

What does keep them is service. Viking gives its customers a free one-year guarantee; this is in addition to the manufacturer's warranty. And Viking doesn't charge for shipping on items over \$25. All



Morgan B. Azimi

Viking Chairman Irwin Helford
Winning by emphasizing customer service.

orders are delivered overnight, or even the same day for customers that are close to one of Viking's nine distribution centers.

To differentiate Viking from the avalanche of catalogs office secretaries receive, Helford's computers track every customer's purchase patterns and send out personalized catalogs to most of its 1.3 million active customers. For instance, if a client orders one type of ballpoint pen at a

certain frequency, Viking will send him a catalog with a message reminding him it's time to reorder the pens. "The catalogs talk to one customer at a time," says Helford.

Viking also generates loyalty. Its customer retention rate is 68%, one of the industry's highest. "Other companies have good service," says Helford. "We have fanatical service."

Helford was lured to

Viking in 1984. At the time he was in charge of sales and marketing at Reliable Corp., a private competitor. He met Viking founder Rolf Ostern at an office products convention in Chicago. With Viking's sales stagnating at \$15 million, Ostern was looking for new leadership and snared Helford with an offer to more than double his salary.

A great investment. Since Helford arrived, Viking's sales have climbed to \$565 million (for its fiscal year ended last June). Helford owns 6.5% of Viking, worth \$70 million.

Under Helford's guidance, Viking has expanded in Europe and Australia. Now more than half of Viking's revenues come from outside the U.S. In these fragmented markets, Viking faces far less competition from discounters than in the U.S., so margins are higher.

"What we did is simple, basic common sense," says Helford. "But it took sophistication to implement it."
—Z.M.

Wal-Marts. Rival Kmart will have close to 100 Super Kmart Centers by the end of 1995. Over two years ago Kmart broke off its troubled partnership in hypermarkets with food retailer Bruno's Inc. to go it alone in the supercenter business. "We remerchandised the stores and built our own fresh produce, meat and bakery departments," says David Marsico, vice president of Super Kmart Centers. This change, however, has yet to do much for Kmart's bottom line.

Management Horizons, a division of Price Waterhouse, expects supercenter sales to more than double, from \$13 billion in 1993 to \$32 billion in 1995, grabbing market share from discount department stores and supermarkets.

For the year ahead, Carl Steidtmann at Management Horizons expects retail sales to grow at a fairly robust clip of 6.5%. One of the hottest segments: consumer electronics stores, a category where sales rose 32% over the last 12

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Department stores											
May Dept Stores	20.1	19.1	13.0	33.7	5.3	4.8	11.2	12.1	11,980	746	6.2
Younkers	17.8*	7.1	6.5	28.2	13.6	-6.0	16.1	-57.0	583	12	2.0
Dillard Dept Stores	14.8	11.8	8.9	35.9	15.0	8.0	12.8	1.4	5,437	244	4.5
JC Penney	14.8	18.8	12.9	31.1	4.0	4.2	NM	18.2	20,657	1,068	5.2
Mercantile Stores	8.5	7.6	7.5	16.7	4.3	1.6	-10.4	18.1	2,779	101	3.6
Sears, Roebuck	7.9	10.9	8.5	42.7	2.4	3.8	15.1	D-P	53,144	1,314	2.5
Strawbridge	7.3	9.0	7.6	44.9	1.3	2.4	-11.7	46.3	994	23	2.3
Neiman Marcus Group	0.1	def	4.8	45.3	6.9	2.9	NM	P-D	2,105	21	1.0
Broadway Stores	NA	def	def	73.5	-5.8	-2.4	NA	NA	2,069	-67	def
Carson Pirie Scott	NA	NA	9.3	49.6	2.2*	1.5	NA	NA	1,156	38	3.2
Federated Dept Stores	NA	9.9	6.2	46.5	-1.0*	5.3	NA	34.6	7,524	226	3.0
Medians	11.6	9.5	7.6	42.7	4.0	2.9	0.4	18.1	2,779	101	3.0
Apparel											
Gap	35.7	27.4	26.1	0.0	22.1	12.9	29.1	43.0	3,573	311	8.7
TJX Cos	28.6*	16.9	13.7	24.6	13.9	5.2	NM	-20.5	3,771	102	2.7
Goody's Family	24.5†	10.2	9.5	1.5	20.2	18.4	NA	-32.3	578	9	1.6
Filene's Basement	24.1*	def	def	25.4	13.9	8.6	NM	P-D	608	-3	def
Limited	24.0	15.8	12.7	19.1	12.9	-0.7	9.3	-10.0	7,203	388	5.4
Talbots	18.8*	15.2	12.5	8.9	13.6*	17.2	NM	31.3	802	45	5.7
Ross Stores	18.1	16.0	13.9	26.4	12.2	10.3	4.1	17.5	1,216	37	3.1
Charming Shoppes	17.7	11.6	11.4	3.7	12.1	4.1	17.3	-18.1	1,284	63	4.9
Edison Bros Stores	15.2	3.7	4.1	27.9	10.4	-1.8	-7.4	-74.1	1,473	15	1.0
Nordstrom	14.9	16.6	14.0	19.3	9.0	7.3	3.7	49.4	3,811	194	5.1
Dress Barn	14.5	11.4	11.3	0.0	13.1	9.0	NM	-15.1	457	16	3.5
Burlington Coat	13.7	11.9	10.6	19.8	16.6	22.4	15.6	-5.6	1,526	41	2.7
Melville	13.6	13.0	13.9	1.0	9.7	6.9	-9.4	172.7	11,134	332	3.0
J Baker	12.8	12.3	8.5	51.0	24.0	25.6	6.7	12.6	1,008	25	2.5
Merry-Go-Round	8.4	def	def	44.0	25.1	-2.2	NM	P-D	905	-107	def
Jacobson Stores	4.7	1.0	2.8	54.5	2.2	-3.3	-23.2	-72.2	403	1	0.2
AnnTaylor Stores	3.6†	8.6	7.3	34.3	11.9	15.6	123.7†	121.3	562	23	4.2
US Shoe	0.7	7.1	6.1	15.8	2.0	-2.3	NM	D-P	2,583	33	1.3
Brown Group	def	def	def	36.1	-1.1	-9.3	NM	P-D	1,511	-22	def
Petrie Stores	def	def	def	6.4	4.2	2.0	NM	D-D	1,484	-24	def
Genesco	def	def	def	56.7	3.9	-16.8	NM	P-D	482	-145	def
Medians	14.5	11.4	9.5	19.8	12.2	6.9	-16.3	-15.1	1,284	25	2.7
Consumer electronics											
Circuit City Stores	22.1	19.9	19.5	14.4	18.3	30.0	12.5	15.7	4,692	143	3.1
Sun TV & Appliances	17.3	13.5	13.1	6.7	30.1	39.2	37.1	17.2	652	18	2.8
Intelligent Electron	16.8	16.4	16.7	0.0	34.3	30.1	31.1	75.9	2,971	37	1.3
MicroAge	14.9	16.8	14.8	0.7	38.7	33.0	15.8	35.3	2,009	16	0.8
Best Buy	14.0	14.1	10.6	39.2	42.9	80.8	58.2	52.2	3,784	44	1.2

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*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

months. The biggest winner in this segment was Best Buy, which posted an 81% sales gain, to \$3.8 billion. "There's pent-up demand from the [1990-92] recession, sales are driven by new products in computers and multimedia, and people are spending more time at home," explains Salomon Brothers retail analyst Mark Mandel.

Also benefiting from the stay-at-home trend were the home improvement companies. Latest-12-months sales were up over 30% at Home Depot and Lowe's Cos.

Specialty retailers, such as the Limited and the Gap, are still losing market share to department stores. But they are fighting back by devoting more dollars to advertising instead of relying on mall traffic, and they're opening

bigger and better-stocked stores.

As for department stores, the big news in 1994 was the purchase of R.H. Macy by Federated Department Stores. This created the largest high-end chain, with over \$14 billion in sales. "The Macy-Federated merger sets the bar for critical mass—a minimum of \$10 billion—and puts pressure on second-tier department stores such as Dillard, Dayton Hudson and Nordstrom to consolidate," says Isaac Lagnado, publisher of *Tactical Retail Monitor*.

In TV shopping—a segment led by QVC and Home Shopping Network—market share was flat. QVC Inc.'s high-end Q2 cable service, which offered apparel from the likes of designer Betsey Johnson, lost \$25 million.

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Good Guys	12.0	13.5	13.5	0.0	27.9	31.2	NM	76.7	725	14	1.9
Inacom	11.6	def	0.1	18.7	45.0	23.6	NM	P-D	1,708	-2	def
Tandy	7.9	11.5	10.5	3.9	NM	15.3	-27.8	D-P	4,576	219	4.8
Fretter	2.0	def	def	56.2	18.8	107.7	NM	P-D	766	-9	def
CompUSA	def	def	def	51.2	70.4	51.4	NM	P-D	2,295	-19	def
Medians	13.0	13.5	11.8	10.6	32.2	32.1	-7.7	26.3	2,152	17	1.2
Drug & discount											
Wal-Mart Stores	29.2	23.5	15.2	42.0	27.4	22.3	22.5	13.4	78,454	2,520	3.2
Venture Stores	28.3	13.1	10.9	27.2	7.7	10.0	16.3	-25.2	1,967	35	1.8
Value City Dept Stores	24.3†	21.8	18.6	12.6	15.2	2.7	23.6*	-3.2	865	39	4.5
Family Dollar Stores	21.4	19.2	18.3	0.0	13.8	10.1	25.3	-4.3	1,428	62	4.3
Walgreen	20.3	20.4	18.0	0.9	11.3	11.3	12.5	15.2	9,235	282	3.1
Dollar General	19.6	25.4	25.3	1.5	13.5	29.3	35.7	43.5	1,347	63	4.7
Caldor	17.0†	14.7	10.9	47.4	8.8	15.7	102.5*	-3.3	2,669	43	1.6
Genovese Drug Stores	15.5	15.0	9.8	34.1	5.5	11.7	15.2	6.0	538	9	1.6
Consolidated Stores	15.0	17.1	15.4	28.7	12.1	16.2	104.7†	18.8	1,175	46	3.9
ShopKo Stores	15.0	8.6	6.2	44.1	6.6	6.9	NM	-24.2	1,819	32	1.8
Dayton Hudson	14.7	14.1	9.1	55.6	9.5	9.2	3.8	26.5	20,594	433	2.1
Fred Meyer	13.0	13.2	9.6	41.1	7.6	7.1	22.3†	12.9	3,122	75	2.4
Longs Drug Stores	12.8	9.4	8.8	0.0	5.3	2.7	-3.4	-2.5	2,548	48	1.9
Arbor Drugs	12.8	11.8	10.4	14.7	15.8	15.8	NM	104.5	642	15	2.3
Fay's	12.8	13.0	10.8	48.1	13.3	9.2	NM	31.9	1,007	13	1.3
Mac Frugal's Bargains	11.9	13.3	12.8	1.6	7.8	16.7	NM	0.0	678	34	5.0
F&M Distributors	10.7†	def	0.6	73.2	13.2	0.2	NA	P-D	733	-9	def
Rite Aid	10.2	1.5	2.2	39.9	7.6	2.0	7.2	-88.5	4,172	13	0.3
Big B	10.1	14.6	9.8	41.1	13.8	16.5	NM	28.5	655	14	2.1
Kmart	5.0	def	def	38.9	5.6	0.9	NM	P-D	35,990	-1,021	def
Pamida Holdings	4.8	def	6.6	96.9	2.1	5.4	NM	Z-D,	667	-1	def
Drug Emporium	0.7	2.8	4.1	55.9	13.9	-0.1	NM	D-P	755	1	0.2
Woolworth	def	def	def	20.4	3.6	-14.0	NM	D-D	8,549	-154	def
Perry Drug Stores	def	def	def	63.2	0.6	5.7	NM	P-D	729	-18	def
Jamesway	def	def	def	84.5	NM	-8.3	NM	D-D	724	-31	def
Rose's Stores	def	def	def	164.3	-2.8	-27.3	NM	D-D	1,006	-108	def
Ames Dept Stores	NA	46.3	27.4	61.2	-11.3	-4.8	NA	NA	2,208	28	1.3
Bradlees	NA	12.3	7.3	53.9	-1.2	1.6	NA	11.9	1,886	20	1.1
Eckerd	NA	NE	14.1	117.7	7.6	7.5	NM	104.3	4,339	60	1.4
Hills Stores	NA	NA	NA	47.0	NM	5.9	NA	NA	1,825	NA	NA
Revco DS	NA	8.6	7.8	45.8	NM	16.9	NA	86.4	2,677	42	1.6
Medians	12.8	12.6	9.7	42.0	7.6	7.1	NM	0.0	1,819	30	1.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity.

NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Home improvement											
Home Depot	23.4	19.7	15.7	21.2	36.2	33.3	35.8	27.9	11,687	571	4.9
Lowe's Cos	11.8	22.6	14.7	31.7	12.6	34.1	12.2	65.8	5,769	203	3.5
Waban	8.6	def	1.2	36.5	17.0	-1.9	NM	P-D	3,569	-1	def
Hechinger	2.9	6.1	5.1	43.5	15.4	18.3	-13.5	14.3	2,399	31	1.3
Grossman's	def	def	2.2	47.5	-6.2	-5.5	NM	D-D	781	-1	def
Payless Cashways	NA	13.9	8.5	55.0	6.7	6.1	NA	500.0+	2,713	50	1.9
Wickes Lumber	NA	500.0+	15.7	94.2	-4.5*	13.8	NA	NA	918	13	1.5
Medians	8.6	13.9	8.5	43.5	12.6	13.8	-13.5	21.1	2,713	31	1.5
Home shopping											
Service Merchandise	55.7	22.4	10.7	70.4	4.0	5.7	NM	-22.2	3,962	65	1.6
Lands' End	26.2	21.9	21.2	0.0	12.9	19.8	10.1	5.4	961	39	4.0
Blair	23.6	20.9	20.7	0.0	4.5	3.8	NM	25.5	527	38	7.2
Viking Office Prods	21.4	25.6	27.1	0.0	36.0	31.3	31.1	70.0	618	36	5.8
CUC International	19.7	35.0	33.9	3.9	20.2	18.1	49.5*	34.2	956	103	10.7
Fingerhut Cos	16.1†	14.4	12.3	32.6	11.2	6.7	14.8†	7.3	1,874	74	4.0
Spiegel	9.8	13.1	7.5	65.0	11.7	22.2	-11.6	150.9	2,976	72	2.4
QVC	8.8	7.9	8.6	1.1	25.9	11.7	NM	-32.2	1,286	48	3.7
Home Shopping	3.8	7.1	5.5	1.2	8.7	6.4	NM	500.0+	1,121	14	1.3
Hanover Direct	def	28.3	16.7	21.9	5.1	32.7	NM	-37.5	771	15	1.9
Medians	17.9	21.4	14.5	2.6	11.5	14.9	NM	16.4	1,041	44	3.8
Specialty retailers											
CML Group	36.4	21.9	18.1	21.1	28.8	17.6	39.7†	-25.4	794	45	5.7
AutoZone	31.6	28.4	28.7	0.8	22.7	23.9	55.8	32.2	1,508	116	7.7
Toys 'R' Us	17.4	15.3	12.8	18.5	14.5	12.3	11.6	10.7	8,257	488	5.9
Musicland Stores	15.6	10.0	9.3	46.4	14.1	18.9	42.8*	2.2	1,329	28	2.1
Michaels Stores	14.9	13.6	10.8	22.8	19.6	50.6	38.6†	9.4	853	27	3.2
CPI	14.4	6.2	5.6	27.3	8.0	10.7	-13.4	-33.3	496	11	2.2
Trans World Entertain	14.2	5.0	4.7	33.5	13.1	8.4	-6.5	-39.3	521	6	1.2
Heilig-Meyers	14.1	14.1	10.8	33.1	19.3	35.5	18.0	32.5	1,010	63	6.3
Jenny Craig	13.8*	def	def	0.0	16.0	-22.2	NM	P-D	383	-4	def
Pep Boys	12.4	13.9	10.6	34.1	13.5	12.5	9.9	25.7	1,368	77	5.7
Office Depot	12.4	15.9	11.3	37.1	80.7	70.0	45.1	61.2	3,820	94	2.5
Smart & Final	11.8	14.4	14.4	1.3	14.5	9.3	NM	6.7	906	16	1.8
Tiffany	9.6	14.7	10.9	34.0	12.5	27.5	NM	D-P	652	28	4.3
General Nutrition Cos	9.6*	23.9	15.0	55.1	8.7	20.5	NM	92.4	624	41	6.5
Pier 1 Imports	9.5	4.1	5.1	39.8	9.4	6.4	-15.7	-57.7	692	8	1.2
Price/Costco	9.0	def	def	29.9	16.1	6.3	NM	P-D	16,481	-112	def
Staples	9.0	13.1	9.1	29.8	60.4	57.6	44.0*	61.0	1,664	32	1.9
Fabri-Centers of Amer	7.5	1.9	2.7	43.1	16.3	3.0	-26.6	-20.5	603	3	0.5
Jostens	6.9	def	def	17.1	3.9	-10.9	NM	D-D	810	-17	def
Amerco	6.3*	8.2	7.7	48.7	7.0*	11.6	NM	58.6	1,203	65	5.4
Egghead	5.5	def	def	0.1	17.8	4.3	NM	P-D	792	-1	def
House of Fabrics	1.0	def	def	0.3	12.0	-8.5	NM	D-D	514	-38	def
Getty Petroleum	0.6	5.9	7.3	38.6	-6.0	-12.6	NM	19.4	721	5	0.7
Dart Group	0.6	def	2.0	22.4	14.6	0.7	NM	P-D	1,310	-4	def
General Host	def	def	def	66.8	3.9	1.8	NM	D-D	572	-48	def
Levitz Furniture	NE	NE	10.7	95.0	0.8	5.3	NM	D-P	1,019	20	2.0
Barnes & Noble	NA	5.7	5.5	37.2	14.1	20.0	NA	46.5	1,514	13	0.9
Kohl's	NA	23.9	20.0	23.5	16.1*	17.5	49.2†	18.8	1,447	63	4.3
OfficeMax	NA	NA	NA	0.3	106.6*	NA	NA	NA	1,701	27	1.6
Medians	9.6	7.2	8.4	29.9	14.5	11.1	-26.6	8.0	906	20	1.9
Industry medians	12.8	11.8	9.3	32.6	12.1	8.5	-13.5	9.4	1,347	28	1.9
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Transport

After years of overcapacity, prices are finally firming for the transportation companies. But Wall Street is already anticipating an economic slowdown.

By James R. Norman

Even if the economy slows, profits in the transportation business should remain healthy in 1995. The reason: a new sense of financial and cost discipline by an industry that let itself outgrow demand and suffered brutal price competition as a result. To survive, railroads, truckers, airlines and shipping companies have all been doing more with fewer assets, and getting tough with their unions. Recently traffic volumes are up sharply, rates are rising and profitability is strong. Returns on equity for the group jumped last year to almost 13%, from a five-year average of 10%.

After years of retrenchment, the railroads clearly rounded the bend in 1994, racking up solid profits as utilization rose. Latest 12-month earnings are up 39% at both

Burlington Northern and Kansas City Southern. Now the railroads are raising freight rates and turning away less profitable commodities. Intermodal traffic is up sharply as trucking firms seek to offset high driver turnover by putting long-haul trailers on flatcars. "In 1995 we look for another good year," says Norfolk Southern Chairman David Goode, who cites rising coal exports, strong auto traffic and new steel plants as reasons for his optimism. Norfolk Southern returned 14.2% on equity last year, a big improvement over its five-year average of 10.5%.

Low-cost and nonunion short lines like Wisconsin Central and Rail-Tex should do particularly well as they regain market share lost to trucks. And pending mergers

A fleet of entrepreneurs

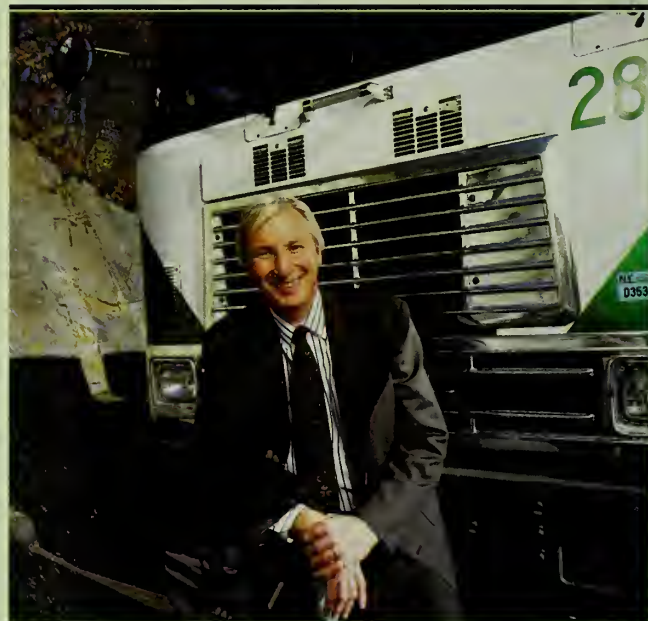
The trucking industry's number one problem is finding and keeping good drivers. The hours and lifestyle are grueling. Turnover rates for some companies approach 200%. That's what makes Landstar System, Inc. such a curiosity. Turnover at the Shelton, Conn.-based trucker over the past year is only 60%. And while other companies have been choking on overcapacity, Landstar expanded its fleet by 1,400 tractors over the past year, and now has 9,000 tractors and almost 13,000 trailers on the road.

Landstar's secret? It owns only 10% of its trucks and has just 2,500 employees on the payroll. Landstar is the only publicly traded trucking company relying mainly on independent owner-operators rather than salaried company drivers. Roughly 90% of its rigs are driver-

owned. Most big trucking companies shun owner-operators because they're too entrepreneurial and hard to manage. "We have some people with no homes," admits Landstar Chief Executive Jeffrey Crowe. "But you don't have to motivate them [owner-operators] every day. And they're safer—it's *their* truck."

Landstar's drivers, who work for the hauler exclusively, carry cellular phones, pagers and computers to keep in constant touch with the company's dispatchers. Drivers get 75% of the gross revenue on a load, and big discounts on trucks, tires, gas and lodging through Landstar's buying co-op. With a husband-and-wife driver team able to earn up to \$200,000 a year working for Landstar, there's no shortage of applicants.

The setup works for Landstar, too. Its business is well balanced: a mix of regular accounts and spot hauls, with the top 100



Landstar's Jeffrey C. Crowe
Secret: independent drivers.

clients delivering over one-third of revenues.

What's next? With revenues last year of \$980 million, Landstar is the number three truckload carrier (behind privately held Schneider National and J.B. Hunt). At this pace, Landstar could overtake

these rivals in a few years. Crowe, who took the firm public in March 1993 at \$13 a share (recent price, 25½), is busy trying to gobble up smaller trucking companies. He thinks 20% of the \$50 billion private fleet market can be converted to contract carriers. "We want to manage assets," says Crowe, "not own them." —J.R.N.

among major railroads—control of Santa Fe Pacific Corp. is being contested by Burlington Northern and Union Pacific Corp.—could mean more track sales to short lines. “Even with just 2.5% GDP growth, you’ll see some very good profits [at short-haul railroads],” says A.G. Edwards analyst Thom Albrecht.

The trucking industry, too, is bumping up against capacity limits and raising prices. Expect good earnings reports this year, with MS Carriers, Trism Inc. and Builders Transport leading the way. But don’t expect rising stock prices. Trucking is viewed as a cycle leader, and many of the trucking stocks were already showing weakness as 1994

ended. “We forecast a flat economy in the second and third quarters,” warns Smith Barney analyst James J. Valentine, “so the fundamentals could deteriorate.”

In the long-depressed ocean shipping business, steadily rising oil traffic and increased scrapping of old ships is likely to push tanker rates higher. Tanker operators Overseas Shipholding Group and OMI Corp. should benefit.

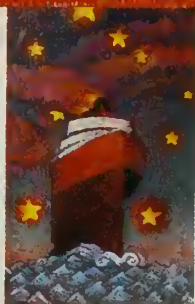
Bulk cargo rates could increase from the new General Agreement on Tariffs & Trade. But the fastest-growing segment will probably remain air freight. The horizon is somewhat cloudy, however: Double-digit traffic volume growth seems to be slowing and cost pressures rising. ■

Transport Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Railroads											
Illinois Central	30.3†	27.7	13.6	34.8	0.2	2.2	16.4†	27.6	582	105	18.0
Kansas City Southern	14.3	21.3	10.6	50.3	14.1	18.8	17.8*	39.4	1,067	118	11.1
Union Pacific	13.0	10.7	6.4	36.2	4.3	3.9	NM	-21.1	7,787	525	6.7
Burlington Northern	11.7	21.1	9.9	32.5	NM	5.3	6.5	38.8	4,897	402	8.2
Norfolk Southern	10.5	14.2	8.6	18.3	NM	-1.2	3.0	28.1	4,495	651	14.5
CSX	6.4	17.7	8.6	33.1	3.6	5.8	NM	55.6	9,383	564	6.0
Conrail	5.3	9.8	6.4	32.3	NM	7.6	13.1	30.5	3,657	281	7.7
Canadian Pacific	def	def	2.2	44.7	-10.0	-26.6	NM	D-D	4,817	-86	def
Southern Pacific Rail	def*	26.4	11.0	53.7	1.8*	7.5	NM	250.0	3,105	101	3.3
Chicago & N Western	NE	38.0	8.7	64.8	1.0	9.0	NM	103.1	1,116	89	8.0
Santa Fe Pacific	NA	19.9	8.3	27.3	NA	10.4	NA	-31.0	2,601	206	7.9
Medians	8.4	19.9	8.6	34.8	0.6	5.8	NM	30.5	3,657	206	7.9
Trucking & shipping											
Arkansas Best	20.4	7.5	8.0	18.0	6.2	5.9	NM	-19.5	1,039	17	1.6
Alexander & Baldwin	16.5	13.0	6.3	38.1	6.9	29.4	-16.2	18.8	1,124	75	6.7
JB Hunt Transport	15.3	11.8	7.0	37.3	21.3	12.8	2.5	9.3	1,136	41	3.6
Roadway Services	14.7	4.6	4.4	0.0	12.7	13.0	10.2	-62.0	4,422	49	1.1
American President	11.6	13.1	8.7	36.1	4.1	11.6	NM	2.2	2,791	73	2.6
TNT Freightways	10.1	17.0	10.5	41.5	16.4	11.4	12.2	38.2	981	30	3.1
Yellow	6.6	def	1.0	33.2	5.3	8.0	-12.9	P-D	2,869	-3	def
Overseas Shipholding	3.9	0.2	1.9	48.1	5.1	-8.8	-14.8	-55.6	353	1	0.3
Consol Freightways	def	6.5	7.3	24.9	7.1	9.9	NM	500.0+	4,511	58	1.3
Carolina Freight	def	5.0	4.5	35.1	5.5	9.5	NM	D-P	922	6	0.7
Greyhound Lines	NA	def	def	70.1	-6.7	-7.5	NA	P-D	626	-75	def
Landstar System	NA	27.5	21.8	32.8	5.8*	22.7	NA	78.4	917	22	2.4
Mayflower Group	NA	2.0	3.3	45.3	1.7†	11.0	NA	-79.7	722	2	0.2
Ryder System	NA	14.5	8.1	51.5	1.6	38.1	NM	40.9	4,536	146	3.2
Medians	10.9	7.0	6.7	36.7	5.7	11.2	-16.2	5.7	1,082	26	1.5
Air freight											
Air Express Intl	26.5	26.1	15.5	47.7	7.3	32.5	18.7	16.4	913	21	2.3
Harper Group	11.5	11.6	10.2	16.0	7.0	7.7	-8.8	-6.5	458	17	3.6
Pittston Services	10.1*	21.0	16.0	10.0	8.0	16.3	35.7*	NA	1,777	72	4.1
Airborne Freight	8.8	11.8	7.4	49.5	17.1	15.9	NM	63.9	1,908	43	2.2
Federal Express	5.0	12.7	8.7	44.3	8.3	9.2	NM	70.7	8,695	233	2.7
Medians	10.1	12.7	10.2	44.3	8.0	15.9	-8.8	40.2	1,777	43	2.7
Industry medians	10.1	12.8	8.2	36.2	5.3	9.4	-15.5	27.6	1,843	65	3.1
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.



Travel

By some measures it's the world's biggest industry, but these days only a few companies make serious money at it.

By William G. Flanagan

If you add up all its pieces, travel and tourism is a huge industry, accounting for over \$3.2 trillion in worldwide spending and employing 212 million people—one in every 9 workers in the world. In the U.S. it's the third-biggest industry, after autos and food.

Despite all this money flying around, few big companies make much money from travel. The business is labor intensive, competition is often fierce and governments and unions can't leave the industry alone.

In the U.S. the big airlines did manage a few encouraging quarters last year. AMR, parent of American Airlines,

earned \$105 million over the latest 12 months. Near the end of the year, security analysts were quick to put out buy orders on Delta and UAL, United's parent.

But the air carriers will have to change drastically to survive (*FORBES*, May 9, 1994). Even though AMR returned to profitability, smaller, highly efficient Southwest earned almost twice as much as AMR on one-sixth of AMR's revenues. But even Southwest is being buffeted by price wars. News that its fourth-quarter results won't match the previous year's dropped the stock 17% in a single day.

In the years ahead, the survivors will be those carriers

Carnival steams on

Ted Arison started Carnival Corp. with a single converted freighter in 1972. Now 70, Arison and his family own some \$4 billion in Carnival stock. Having given up his U.S. citizenship, he now lives in his native Israel.

Replacing him at Carnival's helm is Arison's son Micky, 45. He commands the world's largest and most successful cruise line, with a fleet of 19 ships that can accommodate 24,000 passengers. Over the last 12 months Carnival earned \$362 million, 15% on invested capital. Its net profit margin of 21% is the best in the travel business.

The cruise industry is going through yet another period of expansion. Twenty-five megaships will have been christened in the years between 1994 and 1997, including a 2,600-passenger ark, being built for Carnival Corp. that will be the largest afloat. Many of the new boats will accommodate around

2,000 passengers. In all, this amounts to a 28% expansion of capacity, or around 40,000 new berths.

As usual, Carnival leads the pack. Between 1993 and 1996, it will have spent about \$2.5 billion on seven new ships—two 1,200-passenger vessels for its upmarket Holland America Line and five more (average capacity: over 2,000 berths) for its flagship fleet.

The big ships go for up to \$300 million each, and can generate between \$70 million and \$80 million a year in cash flow. At debt rates of 8%, lines can break even on these assets in under four years.

The key, of course, is filling the staterooms, and that's where Carnival excels. Its occupancy rate last year was 105%; the industry average was 89%. (Occupancy is based on two passengers per cabin; Carnival often crams three or four into a single cabin.)

Carnival's secret has been to market something perceived as a luxury—an ocean cruise—to the mid-



Brian Smith

Micky Arison has taken over Carnival's helm from his dad, Ted, retired in Israel. **Record profits in 1994, and another major expansion now under way.**

dle class. Carnival cruises typically cost \$200 a day per person or less, and last less than a week. If people want to upgrade, Carnival can refer them to its Holland America fleet or its Windstar sailing ships.

Carnival, like its competitors, discounts tickets widely, giving big breaks to early birds and last-minute passengers when it has to. It pays fat commissions to its better travel agents, and is very good at winning all-important first-time business: Over half of all cruise passengers eventually return to the same line. Only about 6% of the U.S. population has ever cruised, so there is ample room for growth.

Carnival now has 20% of the cruise market. The second-biggest operator is Royal Caribbean Cruises Ltd., with a 14% share. Twelve other lines fight over most of the rest of the market. Not all are expected to be around by the year 2000.

One reason for the shakeout: By 1997 cruise ships docking at U.S. ports may have to conform to tighter Safety of Life At Sea (SOLAS) standards. This could cause problems for cruise lines with older vessels; they would have to go elsewhere or undergo expensive refits. But most of Carnival's fleet already conforms to the new rules.

—W.G.F.

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That won't be easy. Continental, United and USAir are all struggling with their own low-fare, frequent service efforts that emulate Southwest's. USAir is further loaded down with red ink and passenger concern over safety.

Things are better in the hotel industry. Hotels are starting to see long-empty rooms fill up again. The average room occupancy rate for the U.S. hotel industry was 66.5% for the first eight months of 1994, up from 64.6%. Room rates rose over the same period an average of 3.2%, to a U.S. average of \$63.26 per night. The recent oversupply in rooms is finally shrinking. With business travelers hitting the road again, sales growth was strongest at urban and luxury properties. Latest 12-month earnings rose 19% at Hilton Hotels and 11% at Marriott International. But at budget properties, average occupancy was down slightly.

The gaming industry suffered some setbacks with voters in some states. In the November elections, gambling

referenda were defeated in Florida, Wyoming, Colorado and Rhode Island. But Missouri, New Mexico and South Dakota all passed new gaming laws. Looking ahead, gaming companies like Circus Circus, Mirage and Promus that know how to entertain the masses should continue to thrive. But outfits like Caesars World and Showboat may not be so lucky. Their problem: intense and growing competition, from Las Vegas to Louisiana.

One travel and entertainment company that doesn't count on any boost from gambling is Walt Disney, which now owns and/or operates 14,745 rooms and 12 resorts. Despite the woes at EuroDisney, latest 12-month earnings were buoyed by U.S. theme parks and the success of new releases like *The Lion King* and of the recently reissued *Snow White* video. Disney's earnings jumped 66%, on a revenue increase of 18%.

In the cruise industry, Carnival Corp. enjoyed a fat 21% net profit on sales of \$1.7 billion in 1994, making it the most profitable travel company by far.

Travel Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
	5-year average %	latest 12 mos %	latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Airlines											
British Airways	13.6	12.0	5.2	70.4	7.2	13.2	-9.2	D-P	9,905	228	2.3
Southwest Airlines	12.0	18.2	11.7	30.1	20.5	20.6	14.6	37.2	2,574	197	7.7
Amtran	5.0	8.2	5.5	31.8	13.4	20.3	NM	96.2	548	6	1.1
AMR	def	1.0	4.0	59.3	12.0	-0.4	NM	D-P	15,733	105	0.7
Alaska Air Group	def	4.2	4.1	72.3	6.7	14.8	NM	D-P	1,275	7	0.6
UAL	def	def	3.8	103.1	9.8	0.6	NM	D-D	14,152	1	0.0
Delta Air Lines	def	def	def	58.8	9.9	1.2	NM	D-D	12,296	-397	def
USAir Group	def	def	def	92.2	3.7	2.9	NM	D-D	7,118	-479	def
America West Airlines	NA	NA	NA	45.5	10.7	10.7	NA	NA	1,415	NA	NA
Continental Airlines	NA	NA	NA	70.6	-7.3	-0.8	NA	NA	5,630	NA	NA
Northwest Airlines	NA	NE	12.7	106.7	6.6*	7.9	NA	NA	9,101	341	3.7
Medians	def	1.0	4.1	70.4	9.8	7.9	NM	66.7	7,118	7	0.7
Hotels & gaming											
Circus Circus	38.9	23.5	11.8	46.5	14.4	33.1	13.9	20.2	1,164	131	11.3
Carnival	20.4	22.2	14.7	35.9	17.1	11.6	NM	16.4	1,721	362	21.0
Caesars World	19.5	16.6	12.1	26.9	2.8	3.3	10.8	-6.2	1,016	78	7.7
Walt Disney	19.2	21.7	16.2	19.6	16.2	17.9	5.9	65.9	10,055	1,110	11.0
Promus Cos	17.3†	24.4	13.4	54.5	7.0	26.0	44.6†	74.6	1,500	132	8.8
Mirage	13.4	9.9	8.1	27.6	38.7	36.3	-5.5†	38.5	1,223	95	7.8
Club Med	11.1	8.5	7.2	16.2	5.2	1.6	18.8	-15.3	561	27	4.8
Hilton Hotels	10.7	10.9	7.3	53.2	7.9	7.7	-4.5	18.8	1,435	116	8.1
Azlar	3.9	5.4	5.9	50.5	0.9	3.1	NM	53.1	535	19	3.6
Bally Entertainment	def	def	1.2	72.6	-9.7	-15.6	NM	D-D	1,037	-60	def
Resorts Intl	def†	NE	def	83.5	-0.8	-13.6	NM	D-D	384	-148	def
Host Marriott	NA	def	2.4	65.6	NA	9.5	NA	D-D	1,446	-42	def
Marriott Intl	NA	25.0	15.9	38.1	NA	-4.0	NA	11.3	7,656	184	2.4
Medians	13.4	10.9	8.1	46.5	7.0	7.7	-4.5	16.4	1,223	95	7.7
Industry medians	10.7	8.3	6.5	53.8	7.6	7.8	NM	18.8	1,473	87	3.0
All-industry medians	11.4	12.6	9.4	32.8	5.5	6.3	-18.8	11.8	1,449	60	4.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful.

*Four-year average. †Three-year average. For further explanation, see page 125.

Sources: Forbes; Value Line Data Base Service via OneSource Information Services.

JAPAN AND THE UNITED STATES:
Strengthening Business Relationships
Through Sharing Values and Visions



**MULTIMEDIA
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HAS TO BRING
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You can't pick up a newspaper or skim through the channels these days without hearing about multimedia's enormous



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potential. Well at NEC, our primary goal is to make sure it lives up to that potential. Which is why we're constantly advancing the technology. Making multimedia more powerful. More dazzling. More user friendly. Adding life to a technology that, until recently, was nothing more than a glimmer in the computer industry's eyes.

One of the keys to getting the most out of multimedia is the development of memory products that can keep up with today's high-performance processors. To that end, NEC offers our Rambus Dynamic Random Access Memory chip (NEC RDRAM™). With a transfer rate of 500 megabytes per second, the RDRAM™ enables life-like, animated images. And

ke our synchronous DRAM chip, it's perfect for high-end multimedia applications.

But as today's applications become more and more complicated, they require far greater horsepower from processors as well. At NEC, we offer a solution:

offers up to three times the performance of the Pentium™ 90 MHz chip. Making it ideal for even the most advanced applications.

Of course, even the world's most powerful system won't do you any good if you don't have

color" (i.e., how the human eye sees it). And although this technology is used primarily in notebooks now, it is quickly heading toward workstations and eventually the home, where it could one day replace current picture-tube technology.



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You see, at NEC, multimedia is more than just the latest buzzword, it's a company-wide commitment. A commitment to making sure this exciting technology lives up to its full potential. Because the way we see it, the more we can do for multimedia, the more it can do for you.

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JAPAN AND THE UNITED STATES: Strengthening Business Relationships Through Sharing Values and Visions

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BUILDING AN ASIA-PACIFIC COMMUNITY

(Ambassador Walter Mondale)

The Asia-Pacific century is upon us, and we all have a tremendous stake in its future. Already, forty percent of our trade is with the nations of the Asia-Pacific and almost two and a half million American jobs are directly related to our exports in Asia. We sell more to Singapore than to either Italy or Greece; and more to Malaysia than to Russia. By the year

2000, it is estimated that one half of world trade will take place in this region and trade and investment flows across the Pacific will be double the trans-Atlantic volume.

In the years ahead, the Asia-Pacific region will have a critical impact on America's economic growth—on trade, jobs and our national prosperity. This makes our active engagement in the region all the more important—politically, strategically, economically, and morally.

President Clinton set forth his vision

of a new Pacific community early on in his administration. Speaking in Tokyo in July of 1993, the President called for an Asian-Pacific community based on "shared strength, shared prosperity and a shared commitment to democratic values." These three pillars are mutually reinforcing: security is essential for economic development; economic progress promotes democratic change; and prosperous democracies make for peaceful neighbors.

The U.S.-Japan partnership is the

bedrock of this new Pacific community and the key to our presence in Asia. Our security relationship is the linchpin of regional peace and stability. The depth—and breadth—of our political cooperation is without parallel. We are working together to defuse the Korean nuclear crisis; to fight AIDS and global poverty; to protect the environment; and to advance the frontiers of science through joint exploration of space. We also cooperate in Asia through a number of multilateral institutions including APEC, the forum for Asian-Pacific Economic Cooperation and ARF, the ASEAN Regional Forum that deals with security cooperation.

The Japanese economy is at the heart of the spectacularly dynamic Asia-Pacific region. Its GDP is equal to that of Germany, France and the United Kingdom combined. Some of Japan's islands have economies that rival those of most nation-states—the island of Kyushu alone has a \$410 billion dollar economy, larger than Australia's. Hokkaido's economy exceeds that of India, and one Japanese prefecture alone, Aichi Prefecture, has a GDP that rivals that of South Korea.

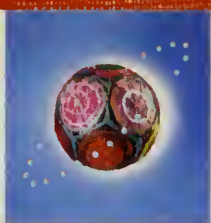
Only with the help of America's business community can we expand our economic ties with Japan and share in the benefits of the Asian economic miracle. Governments can work to create an environment that favors free trade and that allows our competitive products to reach the consumer, but only business can seize these market opportunities and make them profitable.

I am greatly encouraged by the *Forbes* Japan supplement. It offers an essential, informative introduction to Japan for American companies and others interested in this fascinating nation. I am convinced that our relationship with Japan, more than any other of our bilateral ties, will shape our nation's future and the future of the Asia-Pacific region and the world. With this supplement, *Forbes* is making a welcome contribution to strengthening this relationship.



Walter F. Mondale

Walter F. Mondale
United States
Ambassador to Japan



"Toshiba will bring its integrated capabilities to bear on a broad range of businesses in the future."

"Some products and electronic components in particular are becoming increasingly international in nature. So, it behooves us to make such products at the most cost- and resource-efficient places in the world and get them to market fastest," says **Fumio Sato, President and Chief Executive Officer of Toshiba Corporation.**

"Then there are products that have to meet local needs and demands. Household appliances, for instance. They need to be designed, manufactured and sold within the market," he continues.

TOSHIBA



Fumio Sato
Toshiba Corporation

The Toshiba Group consists of some 800 companies throughout the world staffed by 250,000 people who make a wide spectrum of products, from microelectronics to consumer electronics to industrial equipment. At a crossroads of market forces working in opposite directions, how do you accomplish the enormous task of managing global operations? Toshiba's president answers, "logistics."

"By 'logistics' I mean an innovative company-wide management system

that closely links procurement, R&D, production and sales operations and encourages collaboration among them. This is to ensure precise control of all management resources we have at our disposal. What we want here is a system that lets us respond quickly and precisely to the market. The ultimate goal is to reduce the time taken for each process and to cut down on inventory.

"To give you an idea, people developing new products get input from salespersons utilizing improved information flow. Thus, each person in a different position is supposed to pursue interests for the entire company. Innovation in logistics means a departure from a divisional solution to a company-wide solution, optimizing global produc-

tion and diversifying procurement." He adds, "The ultimate goal here is to boost competitive power."

While these ideas explain the company's internal efforts, Sato believes that strategic alliances with other leading companies of the world are vitally important as part of his logistics strategy in enlarging Toshiba's outward perspective.

"International alliances enable us to share with partners ever-increasing research and development costs and manufacturing investments, disperse risks and gain speed needed to stay competitive in the marketplace. Speed is, let me emphasize, one of the most critical elements for success," Sato says.

Indeed, strategic alliances have long been one of Toshiba's strategies for a competitive edge. The partnership with General Electric has continued for nearly a century. Recent alliances include those with Ericsson, IBM, Motorola, Siemens, Sun Microsystems and Time Warner, to name a few.

The Toshiba president believes that strategic alliances are tools to produce synergistic effects. On his approach to alliances, he explains, "The partnership has to be complementary and mutually rewarding. You have to make three by adding one to one through cooperation or even competition."

He believes that his company, together with a large group of its partners in the field of communications and computers, is at the vanguard of the digital revolution.

To strengthen Toshiba's position in the future, he announced in June 1994 the formation of the "Advanced-I Group," a spearhead that will devote itself to development of multimedia-related products and systems by coordinating the efforts of many divisions across traditional borders. The "I" represents three core concepts: Information, Integration and Intelligence.

The Advanced-I Group forms a new cornerstone for Toshiba's further growth and diversification. Twenty years ago, consumer products and heavy electrical apparatus such as power systems generated the bulk of Toshiba's sales. Today, the largest business segment is information and communications systems and electronic devices. For tomorrow, Toshiba wants to be a world-class player in a new information-intensive society by participating in building information systems and infrastructure, developing components, devices and personal terminals, and providing database services and information programs.

President Sato stresses, "Toshiba will bring its integrated capabilities to bear on a broad range of businesses in the future."

He also wants to deploy Toshiba's vast technological prowess for solving global environmental issues. Recent achievements include establishment of the Environmental Engineering Laboratory and development of a system for reclaiming fuel oil from plastic waste. He sums up Toshiba's management philosophy: "Committed to People, Committed to the Future." **F**

"I see no reason why the future for the Japanese automobile industry shouldn't be bright."

While most Japanese car makers experienced declining profits last year due to the higher value of the yen and Japan's lingering recession, **Dr. Hirokazu Nakamura, President of Mitsubishi Motors Corporation**, voices guarded optimism about the future for both his firm and Japan's automobile industry "depending on certain conditions."

"If Japan's heavy concentration of goods and people in urban areas can be curbed effectively, and if the road and highway systems across Japan can be further improved," says Dr. Nakamura, "then I see no reason why the future for the Japanese automobile industry shouldn't be bright."

"While eight out of every ten Americans own a car today," he points out, "only five out of every ten Japanese do. With better nationwide highway networks and road systems, I am more than confident that the Japanese will use more cars."

The president of Japan's third-largest full-line car manufacturer, which last year produced 1,362,447 units in Japan, points out that, on a prefectural (state) level, there exists an obvious relationship between car ownership ratio and the per-head mileage of roads and highways available.

"Car ownership in our prefectures ranges from three to seven for every ten citizens," he notes. "The greater the total mileage of roads and highways available in a specific prefecture, the higher the car ownership ratio."

Dr. Nakamura views an early implementation of various deregulatory measures and an effective solution of problems resulting from over-concentration in urban areas as the inevitable means of activating domestic consumption, calling vigorous investment in social infrastructure—including housing—"a top-priority matter."

Japan's car exports, he predicts, will continue to be affected until effective means are worked out to weaken the yen, noting that Japanese car manufacturers are under growing pressure to step up overseas production further.

Mitsubishi Motors, now Japan's third-largest car manufacturer after Toyota and Nissan, is no exception. The \$24.5 billion firm is actively pursuing global manufacturing, linking up with governments and automobile manufacturers in Asia—including China and Malaysia—the U.S., and Europe.

In China, for instance, Mitsubishi Motors currently is conducting a feasibility study to measure the possibility of helping build up the automobile divisions of China North Industrial Group, China Aerospace Corporation and the

Aviation Industries of China with a view to privatization. The study is being conducted under an agreement signed with Mitsubishi Corporation, the Malaysian State Investment Agency, Malaysia's commercial banks, and the three Chinese companies.

In the U.S., Mitsubishi Motors will continue to provide 100,000 to 150,000 cars a year from its plants in Japan and the U.S. to Chrysler—its partner in Japan until the U.S. firm divested its share of Mitsubishi in 1992. Mitsubishi also delivers 400,000 V6 engines to Chrysler for its vehicles.

"To accommodate the high value of the yen and the need for corporate restructuring," notes Dr. Nakamura, "Japanese automobile manufacturers must make truly attractive cars with every feature to make them competitive around the world. Mitsubishi Motors is trying its best to do exactly that."

Meanwhile, Mitsubishi Motors is viewing Europe as a promising future production base. Dr. Nakamura points out that, coupled with the higher value of the yen, the 10% tariff levied on cars imported into the EU—against 2.5% in the U.S.—makes lucrative export business "very difficult."

That, he says, has prompted his firm to make plans to manufacture cars in the Netherlands in a joint venture with Volvo Car Corporation of Sweden and the government of the Netherlands.

The joint venture—Netherlands Car B.V. (NedCar)—set up in Born, southern Holland, is under way smoothly, and production (annual capacity: 200,000 units) will begin in May 1995, three months ahead of schedule.

These vehicles, designed specifically for the European market, will be sold in equal numbers under Volvo and Mitsubishi names.

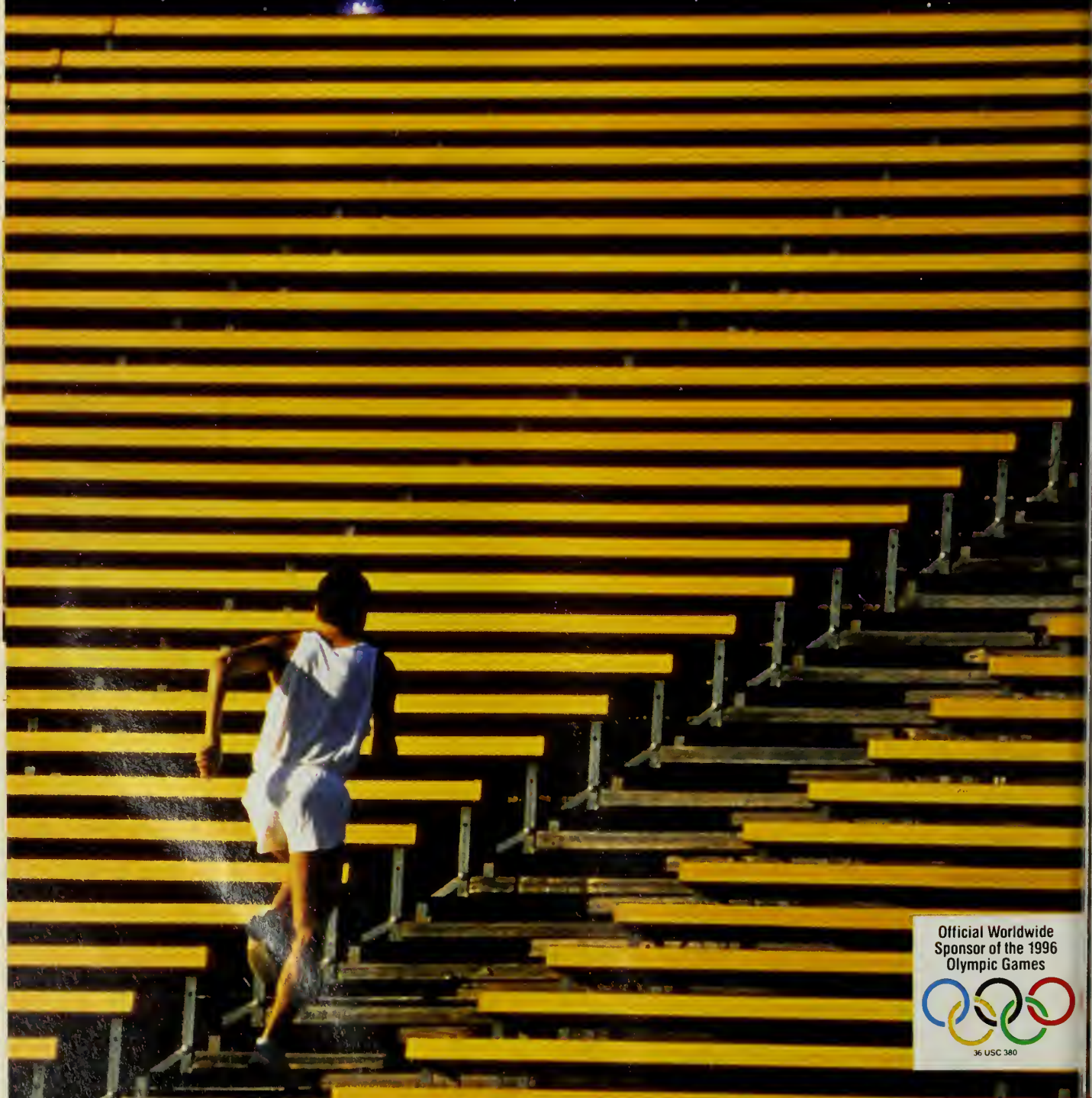
Dr. Nakamura says Japanese cars have been "somewhat underestimated" in Europe, but voices confidence that the cars to be manufactured in the Netherlands will be recognized as "a perfect blend of Volvo's—and Mitsubishi's—outstanding features and technologies." **F**



MITSUBISHI MOTORS



Hirokazu Nakamura
Mitsubishi Motors Corporation



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36 USC 380

It's not too early to prepare for the 1996 Olympic Games when you're in it for the long run.

A runner prepares for an Olympic event. Every step, every stride is analyzed and scrutinized.

A gymnast practices a flip. Each leap, each landing is studied in minute detail.

A swimmer slips through the water with grace and speed. Every stroke and breath is examined.

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And the world will witness the athletes' efforts through our technology. After a worldwide competition, Matsushita's Panasonic digital video system has been selected as the official broadcast equipment of the 1996 Olympic Games. It will capture the Olympic Summer Games in stunning detail and breathtaking color.



For more than a decade, Matsushita has been dedicating its vast resources to the Olympic Games. So, while it might seem like it's too early to prepare for the 1996 Olympic Games, it's not. Not when you're in it for the long run.

Matsushita Electric
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"I'm afraid the U.S. may have come to wonder what having such a reluctant ally as Japan really means to its national interests."

Chairman Ryuzaburo Kaku of Canon Inc., a \$16 billion global manufacturer and distributor of camera and office automation equipment, has been wrestling with two nagging problems these past few years—the relationship between the U.S. and Japan and Japan's survival as a manufacturing nation.

Kaku describes current U.S.-Japan ties as "not necessarily good" primarily because of the "wrong postures" assumed by both nations toward each other after the collapse of the Soviet Union.

"Despite its wealth and prosperity," Kaku notes, "Japan is least interested in working together with its ally in helping establish a new world order following the end of the Cold War.

"Meanwhile, the U.S. is suffering from the aftereffects of the Soviet containment policies, such as the budgetary and trade deficits—which actually are its own fault—and is taking it out on Japan as the Japanese foreign currency reserves keep bulging.

"The U.S. views Japan's closed market as the main obstacle to its economic recovery."

As a step that

Japan must take to help improve the two nations' relationship, Kaku attaches particular importance to Japan's "behaving as a mature and equal partner" of the U.S., pointing out that Japan must willingly assume much greater international responsibilities, at times guiding the U.S.

"That's what a partner should do," he asserts.

"Postwar Japan acted as America's follower in the international arena, which the U.S. approved at the time," Kaku notes. "However, I am afraid the U.S., faced with numerous problems, may have come to wonder what having such a reluctant ally as Japan really means to its national interests."

To become America's true partner, Kaku stresses, the Japanese side must adopt drastic

political and spiritual reforms, including adopting a "homemade" peace constitution that makes Japan's Self Defense Forces fully legitimate, and discarding Japan's "old-fashioned national mentality" of always wanting to catch up with and then overtake others.

"Who is Japan, a full-fledged economic power, trying to catch up with now?" asks Kaku, noting that Japan virtually caught up with the world's advanced nations back in the mid-1960s. "Japan must come out of the shell of its 'developing nation' mentality," he says.

A national objective based on a philosophy like *Kyosei* (Canon's corporate credo meaning "living and working together for the common good") is what Kaku believes Japan should adopt.

Kaku is worried about what he sees as signs of Japan's decline as a manufacturing nation, and emphasizes that the Japanese government must adopt measures to transform his country into a prime "technological power."

"Canon's partners in the U.S. point out OEM products manufactured in Japan are no longer competitive because they can make them cheaper at home," Kaku continues. "The U.S. has bounced back enough to claim a manufacturing edge over Japan.

"We have so far managed to cope with the situation by securing cheaper supply bases, such as China, which is fast becoming a sophisticated high-tech center of this part of the world.

"The other Asian countries are rapidly catching up with Japan, too. Unless Japan establishes a national goal of becoming a prime technological power, what's left of Japan's manufacturing supremacy will surely fall prey to them."

To help realize his goal, Kaku as Chairman of the Technology Committee of the powerful Keizai-Doyu-Kai (Japan Association of Corporate Executives) has recently made a daring proposal. He urged the government to dramatically increase its research and development budget—from the current 0.5% of Japan's GNP to 3% a year.

"I believe Japan can make a genuine contribution to the world by developing high technology," stresses Kaku. "If Japan can invent leading-edge technologies to solve the three major problems affecting mankind's future—environment, energy and food—it will truly benefit the entire world."

Kaku attributes Canon's corporate success to a hefty R&D investment he initiated after assuming presidency in 1977, which has since born excellent fruit, such as its best-selling printers—LBP (Laser Beam Printer) and BJP (Bubble Jet Printer).

"On the corporate level, it takes at least ten years to see one R&D project fly," observes Kaku. "If the government fails to act now, I'm afraid Japan's survival will become precarious in the not too distant future." ■

CANON



Ryuzaburo Kaku
Canon Inc.



There are Sakura branches extending throughout the world

Sakura Bank was formed through a merger of the Mitsui and Taiyo Kobe banks. Today, it is like a thriving *sakura*, or Japanese cherry tree, with deep roots in its native soil and branches reaching out in every direction to create a network of more than 100 offices in 30 countries.

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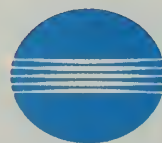
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MINOLTA

"Japan is no longer the central manufacturing location for many of our products. [We] conduct our operations—R&D, design, production—in the locations where prevailing factors best suit each purpose."

The world is moving toward a single, borderless global market as trade barriers continue to fall. At the same time, the soaring yen is hitting Japanese manufacturing very hard. Hitachi is actively responding to these and other trends," says Tsutomu Kanai, President of Hitachi, Ltd.

The current situation presents an excellent opportunity to execute new global growth plans and streamline operations, according to Kanai.

On the subject of globalization, Kanai is unequivocal: "Japan is no longer the central manufacturing location for many of our products. One of the advantages of a single global market is that it allows us to conduct our various operations—R&D, design, production—in the locations where prevailing factors best suit each purpose. We are very happy with our growing overseas operations, and are proud of our efforts to be responsible members of the community wherever we locate."

What's the secret of Hitachi's success overseas? Says Kanai: "Because of Hitachi's strong technological position, we are able to work jointly with the leading companies of the world. Such partnerships offer many advantages. They build complementary relations between corporations, optimizing resources and strengthening ties between nations."

He cites a few examples: "With International Business Machines Corporation, we have a technology relationship in the field of large-scale computers; with Texas Instruments Incorporated, we will soon launch a semiconductor manufacturing facility in Texas; and in Korea, we have a relationship with Goldstar Electron Co., Ltd. regarding semiconductor technology and production."

Another Hitachi strategy calls for strengthening production facilities in growth markets and establishing new bases in emerging markets.

In October 1994, Hitachi (China), Ltd. was established. Its mission is to coordinate the planning of China operations, which incorporate numerous production facilities striving to meet growing Chinese demand for a long list of products including TVs, air conditioners, elevators and computer software. In April 1994, Hitachi Computer Products (Asia) Corp. was established in the Philippines to produce small disk drives.

Hitachi's overseas production is decidedly on the rise: In fiscal 1993, it reached \$6 billion, a twofold increase in a five-year period.

Hitachi took a major step toward streamlining last year, when it announced the merger of Hitachi, Ltd. with its consumer products sales subsidiary, Hitachi Sales Corporation. Scheduled for April 1995, the move will make possible a completely integrated system that extends from

product development and production to sales and service. Kanai expects the advantages brought about by this change to enable his company to expand its multimedia-related business.

His confidence in Hitachi's future growth finds its source in the company's technological prowess, which is constantly being reinforced. Kanai stresses that "Technology is the driving force of growth." His company invested a hefty \$4.7 billion, or 6.5% of total sales, in R&D in 1993, over 60% of which was devoted to information systems and electronics. However, Kanai says, "Investment in R&D alone won't positively affect a company's bottom line. New technologies must be translated into useful products. We have taken steps to ensure that we do this." Under Hitachi's Strategic Business Projects system, operational since 1992, business divisions are responsible for all aspects of strategic product development, from planning and R&D through production and marketing. The system has already produced a number of hit products.

Kanai believes that advances in electronics and information technology will have a profound influence on society, and especially infrastructure, as they are incorporated in a diverse array of industrial products. Hitachi is already a part of this process. Kanai says: "At Hitachi, a variety of technologies are integrated into products and systems to create new value."

Since its founding in 1910, Hitachi has endeavored to develop technologies that are useful for socioeconomic development. Most companies contribute to society by providing high-quality products and technologies. "However, at Hitachi," as Kanai puts it, "we go a step beyond that." ■



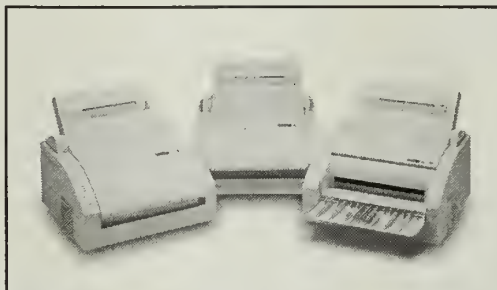
HITACHI



Tsutomu Kanai
Hitachi, Ltd.

Brother introduces unique laser printer with breakthrough design that re-defines the category

In the past, owning a laser printer was just a dream for most people. With prices starting at \$500, people had to purchase old or discontinued models to stay within their budget, or settle for ink jet which produces "laser-like" output. Brother International has changed all of that with the introduction of their new line of laser printers — the HL-600 Series.



IT STARTED BY REDESIGNING THE WHEEL

Extensive research conducted by Brother found that users really didn't want to settle for older models or "laser-like" output. Although more and more people are working from their homes, they still want their output to look like that of their larger and wealthier corporate competitors.

Combining this research with years of experience in the laser printer market allowed Brother to develop their new line of laser printers, giving customers what they want at a price they can afford. Unlike other 300 dpi and 600 dpi laser printers that employ a curved paper path which consequently results in wrinkled envelopes, curled cards and annoying paper jams, the straight paper path in Brother's 6PPM HL-600 Series handles virtually any type of print medium worry (and wrinkle) free.

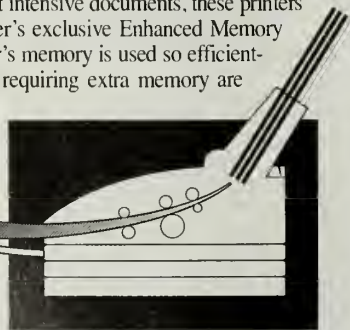
And because the shortest distance between two points has always been a straight line, the HL-600 Series is up to 72% faster than the leading competitor when it comes to actually printing out documents (an important point to remember the next time you sit waiting for your laser printer to print out that first page.)

Aside from speed and versatility, the straight paper path offers other advantages as well. Due to the ultra affordable Brother two piece toner and drum unit, the HL-600 Series has one of the lowest per page operating costs in the industry. Clearly the benefits of the straight paper path speak (volumes) for themselves.

INTELLIGENT - IN MORE WAYS THAN ONE.

If you've ever received an "insufficient memory" error or an incomplete page when trying to print graphics or text intensive documents, these printers are definitely for you. With Brother's exclusive Enhanced Memory Management technology, the printer's memory is used so efficiently, that many documents normally requiring extra memory are printed with the standard 512K of the HL-630.

Another intelligence feature is Brother's IntelliPrint technology which combines auto interface switching, patented auto emulation switching, adjustable Power Save mode, one button last page reprinting and automatic data compression technology, all of which ensure that using the printer will be a truly seamless experience.



A FULL LINE - A TRUE COMMITMENT

Although the HL-600 Series offers exceptional value and a full set of outstanding features, Brother understands that some users may need more than 300 dpi or 6 pages per minute. Therefore, Brother created a full line up of laser printers to address virtually every type of potential customer. These printers offer some very high end features such as IntelliPrint Technology, Enhanced Memory Management, the most total fonts in this

class and Brother's own revolutionary Straight Paper Path Technology.

Most amazing, all of the above is offered starting around \$399 — far less than any other 6 PPM printer — and most 4 PPM printers for that matter. If this combination of features and value sounds like big news to you, you're not alone. In fact, PC Magazine, the computer

industry's bible, gave the HL-630 their coveted "Editor's Choice" award for just those very reasons.

While all units in the HL-600 Series can be made Macintosh compatible via a simple upgrade, the step up HL-655M adds the unique benefit of dual platform compatibility right out of the box — a first for any printer in this class!

With outstanding features such as 6 pages per minute, 300 dpi resolution and their unique Straight Paper Path Technology, Brother has changed the way people look at and use laser printers. Not wanting to be just another piece of hardware, Brother has also bundles some very useful extras in the box with their printers.

ClickBook, a software package from BookMaker Corporation, allows users to take documents created under any Windows application (a Macintosh version is also available) and turn them into handy booklets, tri-fold brochures or any one of 20 different formats. This outstanding utility program will be a great marketing tool for anyone looking for a creative way to promote their business.

Another added value is a laser specialty paper sampler kit from Premier Papers. These exciting and colorfully designed papers can be used to create four color brochures without the cost of a trip to the local quick-print shop.

Finally, offers for magazine subscriptions to Home Office Computing and Entrepreneur Magazine will give users the latest information on how to operate a small business or what is going on in the ever-changing technology marketplace.

All of these great extras, combined with Brother's unique Straight Paper Path Technology add up to a "Personal Printshop" right on the desk.

Wanting to carry all of these great features one step further, Brother also offers the HL-660 — a 600 dpi printer designed for the demands of desktop publishing. Like its '300 dpi "cousins," the HL-660 features the straight paper path and all of the other features of the 300 dpi models. The HL-660 comes standard with 2MB of memory which can be easily upgraded to 10MB via industry standard SIMM.

Thanks to its combination of crisper 600 dpi text and added memory, the HL-660 is ideal for "Business Printshop" applications — a level where only the highest quality output will do.

HIGH TECH, HIGH QUALITY

For the most demanding printing applications, Brother also offers the HL-1260. Its superior graphics resolution, 12 page per minute output, 87 resident fonts, 11 resident bar codes, network capabilities and 2MB or RAM (expandable to 26MB) make it perfect for high volume network applications that demand the highest quality output.

With all of these features and true benefits, Brother has clearly introduced a line of laser printers designed with the two most important features for every type of laser printer user...performance and value.

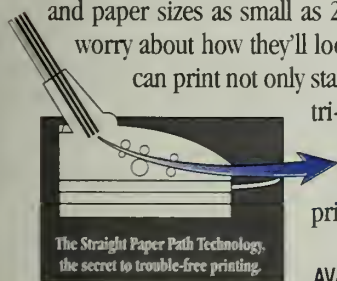


PC Magazine could have chosen any laser printer. They chose ours.

Introducing the Brother HL-600 Series Laser Printers, with exclusive Straight Paper Path Technology that sets a new standard in quality and value.

If your next laser printer doesn't have our exclusive Straight Paper Path Technology, that may put a wrinkle in many of your printing projects.

That's because our laser printers don't take your paper down a curvy, twisty paper path like other laser printers. So everything comes out straighter and faster (up to a blazing 6 pages per minute). You'll be able to automatically stack and feed those troublesome envelopes (up to 10 at a time), and paper sizes as small as 2.75" X 5" without having to worry about how they'll look when they come out. You can print not only standard paper stocks, but also tri-fold brochures, invitations, newsletters, etc. It's like having your own personal print shop!



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Brother HL-630
November 22, 1994

Versatility is just the beginning because our Straight Paper Path Technology virtually eliminates those horrifying paper jam glitches that usually force you to disassemble your laser printer.

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(Yes, laser for \$399!)



HL-630

HL-645

HL-655M

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"The integration of computers and office equipment will lead to the digital office and greater customer satisfaction."

Many Japanese business leaders worry about the possible decline of the nation's manufacturing industry. But not Hiroshi Hamada, President of Ricoh Company Limited—he sees a bright future for his \$9.5 billion global corporation.

Hamada's confidence is based on Ricoh's image processing systems (IPS) integration strategy, which aims to create a digital office linking networked computers with such office equipment as copiers, printers, scanners, optical filing equipment and facsimile machines.

Hamada sees great opportunities for Ricoh's IPS products and systems, which he began cultivating as a future core business shortly after becoming president in the early 1980s.

Ricoh employs a two-pronged approach to IPS integration—general-purpose systems, such as multifunctional and computer-connective copiers and facsimiles, and vertical market systems for specific industries and professions.

Hamada considers his vertical market systems business particularly promising, starting in Japan, then moving overseas.

"While Japanese companies with more than 1,000 employees have installed just as many computers per capita as their American counterparts," he notes, "the percentage of firms of this size is relatively small in Japan."

"A typical Japanese company has fewer than 100 employees and a computer installation rate per capita of only about 6%. They still rely on stand-alone OA equipment. There's therefore tremendous market potential for our IPS integration products."

"We can provide user-friendly, computer-connective IPS integration offerings that process graphics, such as photographs and designs, and text."

"For instance, a wiring subcontractor could use our systems to enhance business performance. Say the subcontractor is asked to

make a bid for the wiring of a house. The initial assessment is really time-consuming—and unproductive. Just think of the complications, like carefully examining the building plans, calculating how much wiring and other materials are necessary, writing up the results, and submitting the bid.

"One of our optical character recognition-based customized systems simplifies this process. The building plans are scanned into a computer, which examines them and calculates the amount of wiring and materials. The results can then be formatted and printed through a multifunctional digital system or sent directly to the contractor via the system's facsimile function."

To push ahead with its IPS integration strategy, Ricoh has introduced an internal entrepreneur system in Japan. Under this system, specialists in certain fields or industries can set up and run their own businesses inside the company.

Ricoh has established a special fund of ¥10 billion to finance the creation of these entrepreneurs. So far, eight such operations have been launched to serve vertical markets like hospitals, real estate companies and delivery companies. As the system spreads to domestic subsidiaries, Ricoh anticipates more startups.

Hamada expects Ricoh's IPS integration strategy overseas to differ from the approach in Japan, although the products will be basically the same.

"We can't go it alone," he says. "In the United States or Europe, for example, the personal computer is well-established. Value-added retailers and system integrators understand local markets, and they're good at providing software solutions."

"We want to form partnerships with these suppliers so we can combine our hardware with their software to link our image processing systems and computers."

"There are advantages for both parties in a successful partnership. If a system integrator creates software that complements a Ricoh IPS system for a vertical market in one region, a combined package could be sold nationwide."

"We look forward to working with many overseas partners to create new markets while providing creative solutions for our customers."

Hamada also believes that Ricoh's IPS integration strategy will lead to even greater satisfaction for the company's customers.

"We're committed to becoming the leader in providing digital image processing systems. We're also dedicated to becoming the number one company in providing customer satisfaction."

"We always try hard to please. But to succeed with IPS integration, we've got to put ourselves in the customer's shoes. This means we'll have to try even harder." **F**

RICOH



Hiroshi Hamada
Ricoh Company, Ltd.

MOSCOW

HONG KONG

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BEIJING

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SHANGHAI

QINGDAO

SINGAPORE

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"I see increasing complexity and uncertainty everywhere obscuring our goals. I want every employee to know where our company is heading."

"If you want to know what the future holds for you, you have to explore far into the future," says Takashi Kitaoka, President of Mitsubishi Electric Corporation, a diverse manufacturer whose products range from cellular phones to satellite communications systems, and from projection TVs to industrial robots. "We went to the year 2010, and from there we looked back at the present. This was how we came up with 'Vision 21,'

which was recently announced."

"Vision 21" defines the company's vision for the future, goals to be achieved and underlying philosophy to guide efforts toward the goals.

Since Kitaoka took over the helm in June 1992, he has focused on creating the future for his company. This is not an easy task when the whole electronics industry is grappling with ways to face challenges of the coming information society. "Everywhere I look in the industry, I see increasing complexity and uncertainty, which tend to obscure our goals. So I want every person in the company to know where our company is heading," he explains.

Kitaoka emphasizes the importance of a spiritual perspective in building the future. He urges in "Vision 21" that every person and every group within his company should take

a responsible action, responsible to societies, shareholders, consumers and associates. He recognizes the weight of building a creative climate among his people so that their efforts will be more sharply focused and their creativity maximized. He plans to fulfill this goal through decentralization of decisions at all levels.

In fact, decentralization is a key word in making "a transnational company" Kitaoka envisions, in which, he anticipates, each division will be operating as if it is an independent company with decisions and

initiatives on a global scale. He says, "We no longer stick to conventional, geographically segmented operational units, all of which report to Tokyo. I don't mind if a certain division has its head office outside of Japan."

The other side of the coin is localization. "Let's take the U.S. market. Why not have the R&D, design, production and marketing all done there in the U.S.? A package deal operation like this would best serve the market," he contends. "That does not mean, however, we will be confined in a particular local market. As long as we keep learning on a worldwide basis instead of being bound by local knowledge, we will stay competitive globally."

"As one of the leaders who shape the future, we will strive to achieve the integration of computer, communications and visual technologies, thus responding to the demand of consumers in the future." He sees a greater emphasis directed to multimedia-related products. He remarks, "Of \$30 billion net sales targeted for 1998, at least 10% will be generated by new products to be developed between now and then, although none of them even have product names yet."

How to secure growth when the business environment is so unpredictable? "You have to go into new-business creation," he is quick to respond. The new areas where he sees opportunities include the environment, energy, wellness and security, all of which are closely connected with social concerns. "We consider those concerns catalysts for innovation," he asserts.

Kitaoka is particularly concerned about the ecological problems the world faces today. He mentions with emphasis, "Mitsubishi Electric is firmly committed to the protection of the environment. Under the company's Global Environmental Charter, we have initiated an action program that encompasses every stage of a product's life from product designs to disposal." In recognition of his company's far-flung efforts, he was elected to address on behalf of Japanese companies the World Congress of *Urban Growth and the Environment*, which was held in Hong Kong in November 1994.

Asked how to reduce Japan's trade surpluses, he answered, "We plan to do things where the best performance is expected. This applies to all phases of operations, from R&D to procurement of parts and materials to manufacturing. We will limit export from Japan to those highly value-added products that can only be manufactured most cost-efficiently in this country. We want to secure global competitive advantage while serving the best interest of consumers worldwide." **F**

MITSUBISHI ELECTRIC



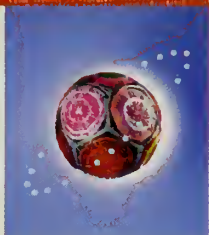
Takashi Kitaoka
Mitsubishi Electric Corporation



Symbiosis:ism

Symbiosis is one of the natural world's truly beautiful systems. In reality, this principle of dynamic natural relationships exists not only among plants and animals; it also applies to animals and humans, humans and humans, companies and companies, companies and the environment, humans and the earth. It is this very relationship, expressed by the term "Symbiosis:ism", that is our goal for bringing about better business global partnerships. Through both free competition and harmony, based on a spirit of mutual benefit and trust, Nippon Steel will continue to make these interactions more productive and fruitful for our lives.

NIPPON STEEL



"Contribute to the growth and development of the economy of the host country."

"To contribute to the growth and development of the economy of the host country is the idea whenever we establish a new base in a foreign country," declares **Yoichi Morishita**, President of Matsushita

Electric Industrial Co., Ltd.

"That has remained unchanged ever since our first overseas plant was established in Thailand in 1961," he continues. "We don't go overseas just to rationalize our domestic operations. When we go, we make a clear statement of our policy on what

and how we will do it. We want to create a self-sufficient local entity, like an independent company in which every-

thing from R&D to manufacturing to customer services is fulfilled. Flexible as it is, it can adjust itself to any changes of policies and regulations of the host country that may change over the course of years.

"As the world becomes increasingly borderless, there are countries that decide to reduce tariffs to make imported prod-

ucts cheaper than those locally made. Then, we will make different products or do something new," he adds.

Currently Matsushita keeps some 100,000 people working outside of Japan at more than 150 different sites worldwide: plants, offices and labs. Its overseas companies account for 18% of the total production and 49% of the total sales of \$64.3 billion in fiscal 1993.

President Morishita is glad that the population of local executive staff members has grown substantially over the years. He asserts, "Local management is entrusted to local staff. In fact, they are doing a terrific job."

Matsushita is part of a Chinese government

project to produce video recorders. It established a plant in Dalian, China. "It is equipped with the most up-to-date, automated production lines to produce key components that are supplied to ten video recorder assembly plants across China. We brought 400 Chinese workers to train in Japan for months. Then we sent a number of engineers from Japan to ensure a smooth launch for the operation. We did everything to make the plant full-fledged," Morishita says with enthusiasm, adding, "Eventually, imports will be replaced by domestically produced video recorders."

This is part of the global plans Matsushita has been pushing since even before the yen became stronger than expected. Morishita says, "What we must do now is to take a hard look again at what we do in each place and take advantage of the international network we already have.

"What we are trying to do is to make products in the most suitable places. We may export production of some components to overseas plants only to import their products back to Japan. We may shift production of some products from Singapore to, say, Indonesia or China. If a particular country wants to meet growing domestic demand with homemade products, we help. If another country wants to earn foreign currency by increasing exports, we comply. It is good for the host countries and good for us," he says.

Does that mean shrinkage of production and loss of jobs in Japan? "We have to keep creating new business, new products and new value through R&D to provide enough jobs in our country," Morishita maintains.

On R&D, he explains, "One rapidly growing research area relates to what we call AV&CC, which stands for audio-visual and computer-communications. Another important area concerns appliances and products for living and housing. We also strengthen research efforts in developing networks and systems such as information systems, and various devices of which they are made."

At present, Matsushita has more than 60 labs within and outside of Japan that are staffed by some 27,000 scientists and engineers.

Matsushita's plans for the future and for globalization are based upon the philosophy of Konosuke Matsushita, the founder of the company, which says in essence: "Devote yourself to society and the well-being of the people, and enhance the quality of life throughout the world."

Visit any Matsushita office and you will find a reminder of his ideal posted on the wall: *Kyozon Kyoei*, meaning "Together We Prosper." ■

MATSUSHITA



Yoichi Morishita
Matsushita Electric Industrial Co., Ltd.

"How the U.S. and Japan get along with each other is a matter of great importance to the world's future—both political and economic."



Minoru Murofushi, President of ITOCHU Corporation, believes Japan should make an all-out effort to realize a more equal partnership with the U.S., sharing burdens in a spirit of "Pax Consortia."

"Thanks primarily to the huge U.S. consumer market and the full U.S. backing of Japan's postwar economic rehabilitation program," notes Murofushi, "Japan has achieved phenomenal economic prosperity in these past 50 years."

"Postwar U.S.-Japan ties began like a father-son relationship, with the U.S. generously helping Japan get back on its feet. But the times have changed and the U.S. no longer can afford to keep accommodating Japan, now a full-fledged economic superpower. Nor can the U.S. readily exercise 'Pax Americana' on its own."

A leading internationalist in the Japanese business world with more than a dozen years' stint in the U.S., Murofushi is a keen observer of the evolution of U.S.-Japan relations. He likens the current ties to a relationship between two brothers, with the U.S. playing the part of the big brother.

Now that Japan accounts for nearly 15% of the world's GNP, he asserts, Japan should behave like a more "mature" partner, taking on "a good part" of the regional responsibilities in Asia previously shouldered by the U.S.

Despite Japan's current political instability, Murofushi is confident Japanese leaders are well aware of the importance of this new international role for Japan.

Murofushi says the Japanese economy is still hard-hit by the high value of the yen, noting the phenomenon is "a message from the international community that Japan hasn't done enough to contribute to the world economy."

But the president of the \$160 billion company, which has nearly 800 subsidiaries and associated companies worldwide in such areas as general trading, raw materials development, multimedia and finance, does not believe Japan should curb its exports to check its huge foreign currency reserves.

"Instead," says Murofushi, "Japan should make every effort to open its market to drastically increase imports, and enforce more daring deregulatory measures to stimulate domestic consumption."

Murofushi describes these steps as natural responsibilities thrust on an economic superpower and a reliable partner.

Calling U.S.-Japan ties Japan's "most important bilateral relationship," Murofushi urges Japanese leaders to act in a spirit of

"Pax Consortia," joining hands with the U.S. to help accelerate development in the Asia-Pacific region.

Explaining the business strategy of ITOCHU, which under his leadership is steadily transforming itself from Japan's leading general trading firm into an integrated global corporation, Murofushi attaches particular importance to the Asia-Pacific region—including China and ASEAN (Association of Southeast Asian Nations)—the world's most dynamic growth center.

"The whole world is attracted to this region," comments Murofushi. "We are working with U.S. and European firms to help this region's growth, not just as a go-between, but as a risk-sharing partner."

Murofushi believes solid U.S.-Japan ties are critical to this region's—and eventually the world's—future. "With the U.S. and Japan combined generating 40% of the world's GNP, how the U.S. and Japan get along with each other is a matter of great importance to the world's future—both political and economic."

All the more reason, he says, for a better dialogue between the two nations, pointing out that Japan must adopt effective measures to secure a steady flow of policy-related and general information to the U.S.

Referring to the traditional Japanese way of communicating through "indirection," Murofushi observes that Japan has "somewhat naively assumed the U.S. would understand us because we are allies," even if Japan didn't speak up.

He believes the Japanese government should commit itself to promoting a real U.S.-Japan dialogue on all levels—for instance, by stepping up various exchange programs.

"Half a century has already elapsed since the end of the war," says Murofushi, who was 12 when the war ended. "But it's never too late to start a real dialogue." ■

ITOCHU



Minoru Murofushi
ITOCHU Corporation



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HITACHI**



You'll find us in the home, at the office and the shopping mall. We're in hospitals, at construction sites, even in your local hardware store. The fact is, Hitachi makes thousands of different products – from power tools to power plants – for countless industries. And every day, new products are being developed, designed, manufactured and serviced by Hitachi group companies around the world (67 in North America alone). So you see, there's more to the picture than meets the eye.



**"Only history proves what is right or wrong.
You have to be a part of it."**

HOTEL NEW OTANI



Kazuhiko Otani
The New Otani Co., Ltd.

Few Japanese have met with so many state guests, dignitaries, celebrities and VIPs from overseas as **Kazuhiko Otani, President, CEO and General Manager of The New Otani Co., Ltd.** since his hotel in Tokyo was selected as the main venue for the past three Tokyo Summit Meetings in 1977, 1986 and 1993. Also, he welcomed kings, queens, presidents and prime ministers from all over the world on the occasions of the Showa Emperor's

funeral in 1989 and the Heisei Emperor's enthronement ceremony the following year.

"For such important guests, everything counts: location and surroundings, security and luxury, facilities and amenities, foods and services. Every element has to be 100% perfect," he says. "In addition, there is something that never can be bought with money: the sense of hospitality that only tradition nurtures, for instance."

The location of the Hotel New Otani Tokyo undoubtedly is an invaluable asset, too, since "it is where the Tokugawa Shogun's Guard Division was garrisoned through three centuries of the 15-generation Shogunate," says Otani. "Close to Edo Castle, now the Imperial Palace, the place was chosen for the Shogun's most trusted and loyal retainers because it was the most

strategic point in terms of defense and traffic."

From the window of an elegant suite of the hotel, Boris Yeltsin must have seen the best part of Tokyo: a wide expanse of dense greenery that surrounds the State Guest House, and residences of the Crown Prince and other members of the royal family. Seen beyond the forest is a concentration of futuristic-looking skyscrapers in the vast sea of the city of Tokyo. To the left, he might have seen Mt. Fuji in the bright rays of the rising sun. The occasion was the third Tokyo Summit

held in July 1994.

The New Otani president is concerned about the trade tensions between Japan and the U.S. "I'm afraid negotiators try to find short-term solutions for long-term problems," he says. "The issues discussed in the trade talks have their roots in culture or history. We have to realize that we have different cultures and histories, and appreciate the differences since what the U.S. wants from Japan is what it lacks and vice versa. Japan can contribute to the U.S. only because it is different."

He cites his own case: "In 1992 we signed a marketing agreement with Marriott Corporation, under which we would exchange employees. Most Americans in this program would want to go home in the first three months or so, but once they survive this period by becoming familiar with Japanese culture and customs, they'd want to stay longer than the assigned term. You have to live a culture to appreciate it. And it takes time to really enjoy a different culture."

He suggests that trade negotiators or anyone at the Japan-U.S. crossroads think in a time frame of at least 50 years. He explains in a historical perspective, "The designers of the city of Edo (now Tokyo), the Edo Castle and lords' mansions were looking centuries ahead. We still are indebted to them for the prosperity of Tokyo today."

"A similar time framework was applied to designing Hotel New Otani Tokyo," he points out. "It fully embodies the innovative concept of a next-century hotel with business, shopping, dining, meeting and health facilities all integrated harmoniously in one place along with the refined hospitality of a grand hotel."

Indeed, his hotel complex looks like a self-sufficient city with its park and art museum, rather than a place where travelers stay overnight. As the "mayor" of this ultra-modern city, he pays a great deal of attention to saving energy, water and electricity, and also to waste disposal, which in turn, he hopes, contributes to the bottom line.

He had the Garden Court, the latest addition to the complex, designed with environmental effects in mind: it is equipped with a water recycling system—recycled for public lavatories within the hotel—and gas-turbine electricity generators whose heat is used for hot water and air conditioning. He remarks, "Only history proves what is right or wrong. You have to be a part of it." **F**

成 Amway

Two symbols for success in Japan.

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- Net income jumped 30%, to \$205 million, the highest ever in Amway Japan's 15 years of operations.
- Amway Japan Limited was the first Japanese OTC to list its American Depositary Receipts on the New York Stock Exchange (ticker symbol: AJL).

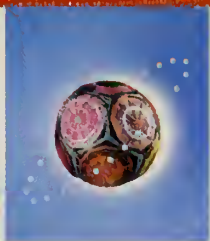


Amway Japan Limited
Growing by performance.

Net sales and net income converted from Yen to \$U.S. using 8-31-94 exchange rate.

*Trademark of Amway Corp Ada, MI, U.S.A





"From my own sales experiences in Japan and the U.S., I would say the American market is at least ten times less difficult."

Hiromi Gunji, Chairman, CEO and President of Brother International Corporation (BIC) of Somerset, N.J., may be one of America's most active top businessmen, spending nearly six months a year outside his office to visit dealers and retailers across the Americas.

"I introduce myself as a salesman and ask all kinds of market-related questions," explains Gunji. "This has enabled me to get a feel for what the market really wants. Meanwhile, our clients seem to get a kick out of meeting someone

like me looking for a chance to get a dialogue going. They teach me a lot about product development."

Gunji calls such a dialogue "perhaps the biggest single factor" that has contributed to his company's steady growth. Its annual sales have increased from \$200 million when he took over as Chairman, CEO and President in 1986 to more than \$800 million in 1994—its 40th anniversary year.

Once only the U.S. sales branch of Brother Industries, Ltd.,

Japan's leading sewing machine maker, BIC today is a fast-growing American office equipment distributor and manufacturer with overseas branches in Canada, Mexico and Brazil. A majority of its total work force of 1,400 is in the U.S.

Explaining the business ethos that has led his firm to success, Gunji says: "Many people rank people, money and products—in this order—as the three key ingredients of a success.

"But I don't quite agree. Products have always been our most important ingredient, because we are a small corporation with limited human and monetary resources, which we have had to invest on a single product at a time.

"And, when top management had to decide on which new product to concentrate, my experience in talking to our clients on the grass-roots level has helped tremendously."

BIC's "single-product" strategy has produced impressive sales results, especially in the last four years—up 24% in 1991 (word processors), 33% in 1992 (electronic labelers), 20% in 1993 (facsimile), and 35% in 1994 (printers). In 1995, BIC will feature keyboards.

Encouraged by his firm's strong performance, Gunji now projects BIC will gross \$1.5 billion by the end of 1999—\$700 million more than he did last year.

Gunji, who served as a computer peripherals salesman in Japan for nearly a decade prior to coming to the U.S. in 1984, reflects on his ten-year U.S. stint as a "most rewarding and invigorating" experience.

"I may have been in the dark and may still be touching only a leg of the elephant," says Gunji as he figuratively sizes up the scope of his knowledge and experience in the U.S.

"In these ten years, however, I have always felt great about doing business in this country.

"I have felt a strong sense of security that, as long as we do the right thing, we will not be trampled down by the animal even though we can hardly see it. From my own sales experiences both in Japan and the U.S., I would say the American market is at least ten times less difficult, with the retailers and consumers responding far more readily to products that are good both in price and quality."

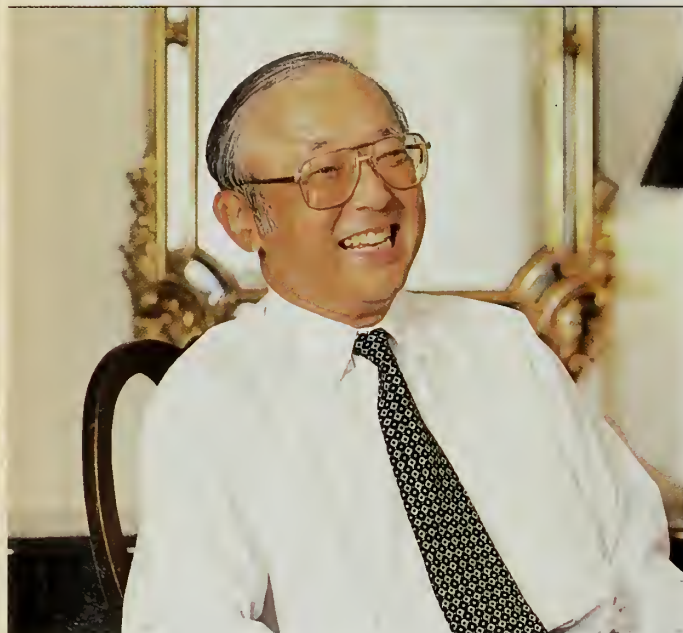
Gunji says penetrating Japan's intricate distribution network is a "precarious task" even for a Japanese salesman, primarily because of the importance attached traditionally to delicate Japanese human relationships.

"When you are new in the market," explains Gunji, "it may sometimes be years before the retailer allows you to put your product on the display shelf, and also acceptance often does not guarantee automatic sales, because of pressure from long-time suppliers. I'm afraid such a system seriously handicaps foreign products."

Gunji says he has especially been heartened by a judgment rendered by the Court of International Trade (CIT) in 1993 in favor of BIC for its dumping claim against foreign imports, pointing out that the judgment reflected "the American sense of fairness and justice."

"We filed the suit as an American corporation and the court fully supported our position," comments Gunji. "This means that 40 years after coming to the U.S. from Nagoya, Japan, we have finally been accepted as an American company." ■

BROTHER



Hiromi Gunji
Brother International Corporation

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Akasaka  **PRINCE HOTEL**
TOKYO

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Economic conditions, currency exchange rates and many other things change on a daily basis here in Japan.

At the 761-room Akasaka Prince Hotel in Tokyo, one thing never changes. That is our steadfast commitment to provide the best possible service to the many American business leaders who stay with us.

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Akasaka Prince Hotel is a member of Japan's most prestigious hotel family, Prince Hotels. Each of our 82 properties has a tradition of looking after all the details that help travelers achieve high levels of comfort and productivity.

We're also mindful that business travelers need relaxation away from work. We own or manage resorts in Hawaii, Alaska, Kyoto, Australia and throughout Japan. So, when replenishment of the mind, body and soul is due, please call us.

Within the past two years, Akasaka Prince Hotel has responded quickly to offset the impact the strengthening yen has had on travel costs for our American guests.

We've introduced several helpful programs.

One of our most popular programs is Prince Club International (PCI), a frequent guest club that offers reduced room rates, free breakfast, extended check-out and other benefits.

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"Daiwa is well-positioned to respond to the opportunity presented by increasing global credit demand."

"As the entire world is becoming capitalist, the demand for capital is expanding to such an extent that there will be a global capital shortage," says Koichi Kimura, Deputy President of Daiwa Securities Co. Ltd., one of the "Big Four" securities firms in Japan.

Asia is booming, the U.S. economy is becoming robust, Latin America is picking up, and European economies are on their way to recovery. This synchronized world economic recovery has created a fierce bidding for capital, badly needed for building infrastructure and financing countries' deficits, and, of course, for business investment.

"Daiwa is well-positioned to respond to the opportunity presented by global credit demand," asserts Kimura, "because, as a major global securities house with vast international network operations, Daiwa has the means, expertise and experience to arrange funds around the globe with 'Japan Money' as a principal resource."

Japan leads the world in thriftiness with behemoth savings and a huge surplus in its current account balance. Most important, out of Japan's total \$10 trillion personal financial assets, securities account for only 14% compared to 32% in the U.S.

"Japanese savers have been conservative, stashing away nearly 60% of their money in savings accounts which enjoyed relatively high yields in the past," Kimura says. "But, with lowered interest rates, a flat economic growth and a bearish Tokyo stock market, Japanese investment will become more diversified and inevitably more international."

"The only way for the yen to yield higher returns is to seek investment overseas," observes Kimura.

"Compared with Europe, Japan has lagged far behind in international investment; its effort to recycle its surplus and savings has not been sufficient. That will, however, change due to the sharp rise in the value of the yen," says Kimura.

"The higher yen has hit the Japanese manufacturing sector very hard. But for Japanese overseas investment, it is in a way a blessing in disguise," Kimura explains, "for it has increased the value of Japanese financial assets and strengthened Japan's capital power."

All this combined, Kimura asserts, means the Japanese market is still underdeveloped and has great potential. "The question then is how to engineer attractive financial products for investors."

Daiwa's clients are, of course, not limited to Japanese investors. "Our ambition is to become a truly global supplier of financial products to all investors," says Kimura, adding that for Daiwa's business strategy, currently one of the most important areas is the Asian region.

"New institutional investors in countries like South Korea, Malaysia, Taiwan and Singapore are our important customers, too. We're trying to help raise Asia's profile in the world capital markets. We supply funds to Asia and, at the same time, offer financial services to Asian investors in the areas of global investment and securities trading," Kimura says.

With its expertise in bond transactions, Daiwa has lead-managed the Dragon bond issue by the Asian Development Bank, and set up the Thai Capital Fund, the Singapore Fund and many other funds. It gave advice and made proposals to the governments of China and Vietnam on ways to establish securities markets and introduce market economies. Daiwa also has made inroads into Asia by establishing joint capital ventures with local partners in China, Taiwan, South Korea and many other Asian nations.

Kimura has spent nearly two decades in London, Geneva and Amsterdam as an international investment banker.

There is no doubt that his international experience enhances Daiwa's commitment and resolve to remain competitive as a leading player in the world capital markets. To be successful in international markets, he is convinced that establishing close relations with investors and achieving their utmost satisfaction are vitally important. He says, "We listen carefully to what our customers have to say, and design and develop products to their satisfaction."

He adds, "Today with the globalization of capital, being one of the 'Big Four' in Tokyo is not good enough for Daiwa." **F**

DAIWA SECURITIES



Koichi Kimura
Daiwa Securities Co. Ltd.



John Rooney collects baseball cards, comic books, you name it. But recently, John and his classmates pulled together to collect more old cans and bottles than any other class in school. There's no prize for winning, yet John's class is committed to recycling as much as they can. Because they know that together, they can help change the world. For themselves. And for future generations.

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Canon



"The mind-set makes a difference in safety records as well as passenger services."

Why are airline profits squeezed when the number of people traveling each year continues to grow at an unprecedented rate? An estimated 12 million Japanese traveled abroad in 1994, representing an increase of 1.2% over the previous year.

"An oversupply of airline seats has contributed to increased price sensitivity among customers," answers **Seiji Fukatsu, President and CEO of All Nippon Airways Co., Ltd. (ANA).**

However, in contrast to the rising number of outbound travelers from Japan, the growth rate in the number of passengers traveling within Japan has been declining for the last four years due to a prolonged downturn of the economy. As a result, ANA, Japan's leading airline, which accounts for more than 50% of domestic passenger service, recorded a net loss of \$28 million in fiscal 1994, its first loss in 27 years.

"To respond to the situation, we are eliminating 1,500 employees over the next two years, largely through attrition and reduced hiring, and reducing unprofitable routes. But the best answers we provide are, I believe, to upgrade passenger services and increase cooperation with other airlines," ANA President Fukatsu says.

His strategy calls for an expansion of the company's international

activities since, for one thing, increasingly more Japanese are expected to travel abroad while the domestic business levels off. Among the steps taken recently is the introduction of a joint global mileage service plan with Austrian Airlines, British Airways, Cathay Pacific, Malaysia Airlines, Singapore Airlines and Swissair. ANA has also reached agreements to pursue joint cooperation in marketing and other areas with Delta Air Lines and Air Canada.

As part of its efforts to provide greater comfort to passengers, ANA introduced a wider seat-pitch of 50 inches in its international

business class. And positive results are emerging. In the six months from April to September 1994, ANA climbed back into the black with a modest \$8 million net profit.

But what about safety, when profits are diminished and competition in passenger services becomes fiercer? President Fukatsu declares, "We place priority on, above all, safety. We have had no accidents in the past 22 years." In fact, ANA was named as one of the world's safest airlines in a report compiled by the International Airline Passenger Association in September 1993.

How does ANA maintain such an enviable safety record? Fukatsu answers, "It's a matter of mind-set. Yes, rules are important. But unless you do more than what is stated in the rules and understand what those rules are for in the first place, something you don't want to happen may happen. The mind-set makes a difference in safety records as well as passenger services."

ANA is the world's seventh-largest airline in number of passengers carried, with the largest Boeing 767 fleet. It flies to 19 destinations outside Japan: Los Angeles, New York, Washington, D.C., and major cities in Europe, China and Southeast Asia with a seat-occupancy rate that well exceeds the industry's average. Nevertheless, Fukatsu believes he has many more tasks to fulfill before he makes his airline the "First Choice."

He points out that international routes and the number of international flights have not yet been fully deregulated to allow free competition. "The airline industry is bound by various agreements in favor of a limited number of old hands," he says. "Japanese airlines altogether account for less than one-third of available seats on flights to and from Japan. ANA has less than 5%. This represents a large trade imbalance when there are three times more Japanese going abroad than there are incoming foreigners."

In the face of challenges coming from the soaring yen that work against cost-cutting efforts, and the formidable competition being staged particularly by Asian airlines, Fukatsu is determined to raise the productivity of both workers and resources—aircraft in particular.

Here, too, the ANA president has to make himself a fighter. He maintains, "An aircraft with a U.S. airline flies for an average of approximately 5,000 hours a year, compared to around 3,000 hours in Japan because of limited airport opening times.

"The Japanese airline industry has outgrown the laws and regulations that were proclaimed decades ago." With customers on his side, Fukatsu is taking a broad-based position of leadership in the industry. **F**

ALL NIPPON AIRWAYS



Seiji Fukatsu
All Nippon Airways Co., Ltd.



September 1, 1923, was a red-letter day for Tokyo's Imperial Hotel. For the first time in more than 30 years, we were to open a bold new building—one designed by none other than *Frank Lloyd Wright*.

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Within hours, The Imperial was overrun.

Through the desert of ashes came a steady stream of refugees, displaced reporters and embassy staff. As always, we showed them to their rooms. When we ran out of rooms, we put them in the Grill. When we ran out of food, we served brown rice gruel. We aimed to comfort—even though we had no water, no lights, no heat, no phones.

We also had no complaints. When at last communications were restored, a cablegram reached the architect in California: "HOTEL STANDS UN-DAMAGED AS MONUMENT TO YOUR GENIUS."



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is still the premier hotel in Tokyo and one of the grandest in Asia. Over the years, we've evolved into an even more imposing complex with 1,059 rooms, incomparable business and dining facilities—and a tradition of hospitality that is nothing short of legendary.

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But judging by all the VIPs, executives and citizens we welcome every day, it's still *the* place to be.



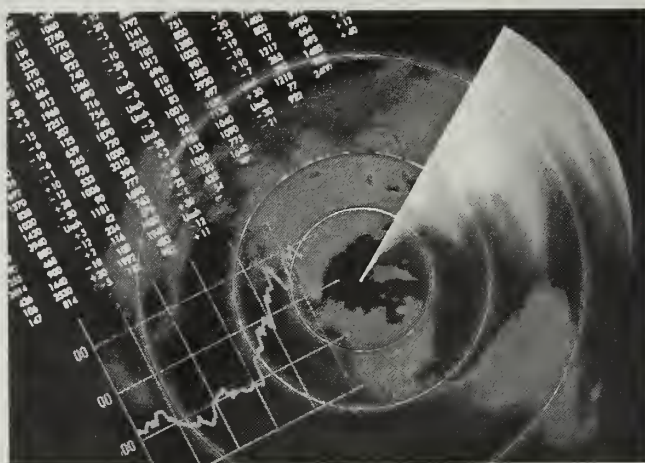
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"An excellent product speaks for itself, particularly when there are good people serving the customers well."

Yoshiharu Fukuhara, President of Shiseido, Japan's largest cosmetics company, disagrees with those who say Japan's manufacturing industry will inevitably bow to the rapidly developing nations of Asia, including China.

"Japan has learned much from what I call the 'U.S.-Japan model' on the international economic scene," says Fukuhara, referring to how increased trade has benefited both nations. "And the lessons will help our future manufacturing."

Fukuhara points out that Japanese manufacturers, while increasingly turning to production in Asia, are using the lessons they learned from postwar U.S.-Japan ties as a "prescription" for avoiding a critical situation in Japan.

In a scenario Fukuhara draws of Asia's economic future, the more the buying power of Asian nations increases, the higher Asia's labor costs will become to "balance things out." This, he stresses, will eventually benefit all manufacturing concerns in Asia—"as long as they can manage to continue developing unique technologies."

To be truly creative and original, however, Fukuhara believes Japanese manufacturers also need to seek closer collaboration with their American and European counterparts for sophisticated globalized manufacturing.

As an example, Fukuhara cites the establishment in 1990 of Beauté Prestige International (BPI)—a fully owned Shiseido subsidiary in Paris that has successfully produced a new brand of fragrance, *L'eau d'Issey*.

This success constitutes a fine blend of Shiseido's accumulated in-house expertise with the talents of specialists of international reputation, including American fashion creator Fabien Barron, American photographer Irving Penn, French fragrance expert Chantal Roos, who for years worked with Yves Saint-Laurent, and Japanese fashion designer Issey Miyake.

Fukuhara strongly believes that a manufacturer's success should be judged by whether or not its products "speak for themselves"—a corporate philosophy advanced by his uncle Shinzo, the U.S.-educated president of Shiseido from 1927 to 1940.

To explain how this philosophy manifests itself, Fukuhara fondly talks about a letter he received some years ago from an elderly reader of a newspaper for which he was writing an essay series. "I have always meant to write this note," the letter read, "to express my thanks for making my father's last wish come true shortly after World War II."

In the late 1940s, when war-ravaged Japan was suffering a severe scarcity of raw materials, the writer wrote, his dying father's wish was to

have one last taste of ice cream available in pre-war days at the Shiseido Parlor. The parlor, located in the plush Ginza district, is Tokyo's oldest French restaurant, developed by Shiseido after it opened Japan's first American-style soda fountain on the same site in 1902.

"Being a loyal son, I went to your Parlor one evening, but was told they had stopped making it a long time before because raw materials had become unavailable," the letter said. "But the manager said I could come back the next day."

"The ice cream was ready as promised, but the manager refused to receive the payment!"

My father was truly happy eating a true delicacy and died peacefully the next day."

Fukuhara was gratified not only because the dying man specified a Shiseido product, but because his firm's employees complied spontaneously.

"An excellent product speaks for itself," Fukuhara stresses, "particularly when there are good people serving the customers well."

To Fukuhara, human development—nurturing able, open-minded and individualistic employees who can think and act both as true professionals and cultured citizens—is just as crucial to his firm's growth as product development itself.

"Shiseido's products should reflect our determination to translate into things our enterprising spirit and strong sense of liberalism," maintains Fukuhara. "Also, they must not only be excellent in quality, but elegant to the eye."

Fukuhara has studied his firm's growth path since its inception in 1872 to discover that Shiseido made "truly excellent" cosmetics even during the war, despite the scarcity of raw materials and the constant obstructions by the wartime government, which regarded cosmetics as luxury goods deserving of enemy status.

"I genuinely believe it was Shiseido's tacit gesture of protest against totalitarianism that made our products so great during the war. And I hope we have retained this spirit and will pass it on to future generations." **F**

SHISEIDO



Yoshiharu Fukuhara
Shiseido Co., Ltd.





Dick Williams is a sales engineer for Mitsubishi Electric Power Products in Warrendale, Pennsylvania. And when he's not engaged in touring his territory, he can often be found touring Sewickley, a Pittsburgh suburb, on his bicycle.

Dick Williams admits it's not the Tour de France. But then, the winners get something better than fame and glory.

Well, this year, Dick's passion for cycling inspired him to organize a grand, citywide, family-style bike ride called (pardon our French) the Tour de Sewickley. Its purpose: to



raise money for an organization that's very special to Dick, the local St. Peter's Child Development Centers, which help young children with disabilities or development delays.

As part of our commitment to encourage and support employees in local civic or charitable causes, our company was pleased to be a corporate sponsor. And we're happy to say the St. Peter's kids came out big winners. More than 700 riders participated in the 60-, 30- and 10-mile rides and \$12,000 was raised for the programs.

What makes the success of such efforts even more special for us is that Dick Williams is one of hundreds of employees at the 16 major facilities of the Mitsubishi Electric America companies who feel the same way about public service as they do about work.

It's their job.





"Of late, more and more Japanese companies have their attention turned to Asia. But for Japan, the U.S. - Japan relationship is the linchpin of all international relations."

Yuzaburo Mogi, Executive Vice President of Kikkoman Corporation, flies to the four corners of the world to promote a traditional seasoning of Japanese cuisine: soy sauce. Among many destinations, he frequents the United States, the country he feels is closest to his heart. "I think of America as my home away from home," says Mogi, a 1961 graduate of Columbia University Business School.

Kikkoman's naturally brewed soy sauce first crossed the Pacific more than a century ago.

KIKKOMAN



Yuzaburo Mogi
Kikkoman Corporation

Since then the United States has become the company's largest customer outside Japan. Kikkoman International Inc. was established in San Francisco in 1957 for marketing soy sauce imported from Japan. As demand grew, Kikkoman Foods, Inc., of which Mogi is the founder and president, was launched in Walworth, Wisconsin, in 1973 as a production and marketing base.

Heavily involved himself for decades in establishing a good relationship between Japan and the U.S., Mogi strongly believes that maintaining the most friendly relationship with the U.S. is vital for Japan. "Of late, more and more Japanese companies have their attention turned to Asia. But the Japan-U.S. relationship is, and should be, the linchpin of all international relations."

True to his belief, Mogi has been trying to foster better relations across the Pacific. Kikkoman supports *Youth For Understanding*, a program that sponsors students from the U.S. who wish to study in Japan during the summer months. Conversely, the company sponsors Japanese students who wish to study in the U.S. To support more educational and cultural activities, the company set up a foundation in Walworth in 1993 on the occasion of the 20th anniversary of Kikkoman Foods, Inc. Recounts Mogi, "The anniversary reception was honored by the incumbent and past governors of Wisconsin, both from the

Republican and Democratic Parties. That showed, I believe, how much we were trusted by the local community."

Mogi himself is chairman of the Japan-America Cooperative Committee, an organization within the Japan Chamber of Commerce and Industry. "What I'm emphasizing at the Committee is that Japan should welcome more investment from America and other countries. Japanese tend to have an aversion to foreign cultures, but that kind of mindset must change."

Mogi has resolute views on Japanese corporate behavior in America and other markets. "Japanese companies have a strong group mentality and they have a tendency to follow what other Japanese companies are doing. A good case in point in the past was the market-share-oriented single-product export drive by a number of Japanese manufacturers directed to a particular market. Such a behavior is damaging to bilateral relations."

The answer, says Mogi, is to be a good and responsible corporate citizen. But how? "First, once in America, try not to do business with other Japanese companies. Instead, deal with American companies, and if possible, with the local ones where you operate. Second, hire as many local people as possible, and minimize the number of Japanese employees. Third, don't let Japanese employees live in a group. Because that will hamper them from mingling with Americans. In our company, Japanese workers don't live near one another. That should help them practice their English and get along with the local residents. And lastly, let the employees get involved in community activities. Do what you can and like. I'm, for instance, an honorable Ambassador representing the state of Wisconsin."

Kikkoman Foods, Inc. has enjoyed enormous success in the States. Since the establishment of the Walworth factory, Kikkoman's shipments have increased ten times. No longer is soy sauce an exotic food. Today, according to Mogi, "half of American families are enjoying soy sauce. And 44% of non-oriental restaurants in the U.S. are using soy sauce in one way or another."

Naturally, it wasn't easy to sell a new food to people who had never tasted it. "But that's all history," asserts Mogi. The popularization of Japanese cuisine led to the acceptance of soy sauce as a seasoning for both American barbecue and traditional family dining. In the U.S., Kikkoman has a market share of 50%, compared to 30% at home. He dreams that soy sauce will ultimately join the ranks of other internationally popular tastes like coffee that were once considered strange but are now a must for many people worldwide. ■

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"I am determined to be a bridge between Japan and the U.S."

The integration of computers and communications is at the heart of NEC's corporate activities. We have focused our efforts on this for many years. Now the integration is blooming into multimedia," says **Dr. Hisashi Kaneko, President of NEC Corporation.**

In 1977, NEC announced its synergistic business concept of "Computers & Communications," years before anyone else predicted the coming information revolution.

NEC



Hisashi Kaneko
NEC Corporation

True to its vision, NEC, a manufacturer of communications systems and equipment since 1899, has invested every effort in the development of computers and semi-conductors, thus making itself fully prepared for the advent of a new era with a long list of multimedia-related products, systems, technologies and services at hand.

"NEC will exert its best efforts under the banner 'NEC, A Multimedia Company,'" declares the NEC president.

He is ambitious. He has to be—he leads 190,000 employees of diverse nationalities around the globe. He wants NEC products to establish themselves as *de facto* world standards in their field.

Another ambitious goal of his is to make NEC a global company.

His strategy for achieving this goal is "mesh globalization." It is based on NEC's international experience since 1958 when its first overseas subsidiary was established. The philosophy means a lot: interplay among R&D centers, division of labor and exchange of products among plants, and sharing the best technologies and ideas worldwide through a fishnet-like organization as opposed to a

pyramidal formation.

Kaneko reports, "Mesh globalization, which is under way in NEC's 75 operational units in 28 countries, is proving effective, particularly now when information and communications are making the world borderless."

He has a firm conviction that no global network is consequential unless each of the local operations worldwide is deeply rooted in the local market.

In NEC's global network, the U.S. plays a weighty role—it is where new technologies and products are constantly researched, developed and produced at NEC's nine subsidiary companies.

"I am convinced that success in the U.S. leads to success in the world. In fact, many of the products made in the U.S. are enjoying global acceptance. The U.S. continues to play a central role in innovation. It is also vital as a supplying base for the world market," Kaneko asserts.

One key word that he uses frequently is "amalgamation." He explains, "It is an integration of two or more different elements into one, enhancing the good qualities of the original elements. We intend to amalgamate two cultures or technologies with different, often competitive, management attributes—ours and that of the host country—into one."

Amalgamation is an idea Kaneko came up with after many years of his experience in and out of Japan. He was the president of NEC USA, Inc. before he became the president of NEC in June 1994.

He says, "American culture, which emphasizes individualism, helps to foster technological originality, an entrepreneurial spirit and a world-leading capacity for software development. On the other hand, Japanese culture focuses on group concerns that help develop efficient manufacturing methods, QC circle activities and hardware technologies. We want to amalgamate the two cultures or combine the best parts of the two."

He cites a case of the Oregon Plant that produces fiber-optic and cellular radio products: "Although the plant is highly automated, its skilled workers participate extensively in QC circle activities, adding American ideas to Japanese ideas to further improve quality and productivity."

"I am determined to be a bridge between Japan and the U.S.," he declares, as he has a special affinity with the country.

NEC president Kaneko earned his Master of Science degree at the University of California, Berkeley, and later worked at the prestigious Bell Telephone Laboratories. In the U.S., he has not only a number of close friends, but also 7,000 people to work with. **F**

"We examined what to do: what to continue and what to abandon, not just how to do things better."

After assuming the presidency of **Nippon Steel Corporation**, the world's largest steelmaker, in June 1993, the first task **Takashi Imai** tackled was to redesign the whole company. He announced in March 1994 a comprehensive corporate renewal plan, which is, according to Imai, "the most drastic plan in the long history of the company."

What makes it different from ubiquitous reform programs calling for reduction of employees and divisions is that it proposed restructuring from the ground up: He rewrote the corporate mission and at the same time proclaimed a bold company-wide overhaul to save \$3 billion in 3 years with the heaviest cut in the administrative staff.

Nippon Steel's crude steel production in fiscal 1993 marked the lowest in its history, resulting in a loss in income and profit. The price of Nippon Steel's product had to go down by 15% for the company to stay competitive in the international market while demand from Japanese manufacturers declined because of the recession.

Under the renewal plan, the company is moving into multiple businesses, expanding operations in diverse fields, from engineering and construction to information/communications—including the manufacturing of semiconductors.

"We looked hard at what viable resources we had available. We examined what to do: what to continue and what to abandon, not just how to do things better," says Imai.

"Fortunately, we have a large pool of systems engineers to run industrial operations, due to the fact that we have been enthusiastic about computerizing manufacturing processes and automating product lines over the last 20 years. During these years, many of the best and brightest electrical and electronics engineers joined our company fresh from universities. Their accumulated knowledge and skill are highly adaptable.

"We also have some 2,600 employees who are engaged in building industrial plants and machinery, and in urban development and infrastructure construction ranging from sewer and water systems to highways, airports to high-rise buildings. We helped build the 70-story Bank of China building in Hong Kong."

As he redefined the corporate mission, the Nippon Steel president is redefining the role of steel. He believes that steel-making will remain the core function of his company for many more decades to come; he wants to keep developing new steel products and adding higher value to steel so that steel will find ways into wider applications.

One of the strengths of Japanese cars comes from state-of-the-art steel products:

high-strength, corrosion-resistant and highly workable steel that allows production of lighter-gauge bodies while satisfying safety requirements.

"To supply such products to car manufacturers in the U.S., we started joint-ventures with Inland Steel Industries of the U.S.: I/N Tek in 1987 and I/N Kote in 1989 in Indiana. Their clients now include not just Japanese but American car manufacturers," he says, showing an aerial photo of the plants standing amid beautiful farmland in the heartland of the U.S.

He looks back at the long history of trade disputes concerning export of iron and steel products to the U.S. from Japan, saying, "We also are supplying steel cords that are woven into tires. Thinner than a hair yet amazingly strong, they are among the most refined products. We are proud that we are contributing to strengthening the U.S. automobile industry."

In the corporate renewal plan, a particular emphasis is placed upon rebuilding international competitiveness.

How? Imai answers, "First, by lowering the production and outsourcing costs, and second, by quickly grasping and responding to fast-changing market demand."

He is confident in the future because he is convinced that Nippon Steel is equipped with the world's most innovative technologies which, he believes, lead to the most competitive quality.

His confidence comes also from steel's usefulness. He says, "Steel can be recycled over and over again since scraps make up a substantial proportion of raw materials that go into furnaces."

Asked about the future of steel, Imai has this to say: "Look around you and you will realize how much you owe to steel for your daily life. Without steel, there are no buildings and no highways; no cars and no trains; no refrigerators and no washing machines, either. Steel is still the most useful, dependable and inexpensive basic material. That fact will remain true for many centuries to come." **F**



NIPPON STEEL



Takashi Imai
Nippon Steel Corporation

— VISIBLE AND INVISIBLE —

There's more to Shiseido Style
than simply meets the eye.



Son of the founder, Yushin Fukuhara, Shinzo Fukuhara transformed Shiseido from a pharmaceutical company into a cosmetics innovator. His artistic flair and cosmopolitan taste continue to inspire the company.

Shiseido, Japan's largest cosmetics manufacturer, is more than just a successful global corporation known for its quality products of unique elegance.

The firm derives its name from a passage in a classic Chinese book on Confucianism praising the virtues of the earth from which all things come.

As its name implies, Shiseido has a lasting commitment to a quest for the apex of excellence, both material and spiritual.

This commitment originated with Shinzo Fukuhara, whose father, Yushin Fukuhara, founded Shiseido as Japan's first Western-style pharmacy in 1872. Educated in the United States, Shinzo studied pharmacology at Columbia University in New York during the early 1900s.

Cosmetics appealed to Shinzo, a man with a keen appreciation for things of beauty. After incorporating Shiseido in 1915 as its president, Shinzo focused on cosmetics as the firm's main line of business, sensing that cosmetics meshed well with his firm's corporate culture.

This shift formed the foundation of Shiseido, the only major cosmetics maker in the world which traces its

origins back to medicine. Today, Shiseido is the world's fourth largest cosmetics manufacturer with a worldwide workforce of over 24,000 employees in more than 45 countries.

An amiable man with refined manners, Shinzo was tough and demanding in matters of product quality. He always insisted that a product "must speak for itself."

"This philosophy is very much alive at Shiseido today," notes Yoshiharu Fukuhara, Shinzo's nephew and the firm's CEO since 1987. Fukuhara believes that the value of brand names should be judged by both visible and invisible elements—such as a firm's traditional values and philosophy. He points out that the importance of the latter cannot be stressed too much.

"We make sure that our products, reflecting these invisible, intangible elements, are instantly identifiable as ours—as items no other

firms can make."

Fukuhara refers to Noboru Matsumoto, Shiseido's second president after Shinzo, as another major contributor to his firm's growth.

Matsumoto, who studied marketing at New York University, served as Shinzo's right-hand man for many years. He contributed immeasurably to Shiseido's postwar success by deciding in the late 1940s that cosmetics should be the core of its "peacetime business."

"Matsumoto was an extremely liberal and internationally minded man," recalls Fukuhara. "He is responsible for the liberalism which today is the 'backbone' of the Shiseido spirit."

Shiseido's commitment to excellence and liberalism, Fukuhara explains, was solidly established by these two men as the foundation of Shiseido's corporate culture.

"These qualities are indeed our valuable assets,"

SHISEIDO



From its earliest years, Shiseido advertising typified the marketing sophistication of Shinzo Fukuhara. He cultivated the unique Shiseido Style in exceptional cosmetics, elegant packaging, and exquisite imagery.



Opened in 1992, "Les Salons du Palais Royal Shiseido" is the company's first fragrance salon in Paris. Each unique detail is handcrafted, reflecting Shiseido's belief that truly deluxe cosmetics should have handmade quality.

continues. "I genuinely believe the tried and positive influence America had on these two predecessors has strongly helped form the basis of Shiseido as a global enterprise."

Pondering postwar U.S.-Japan relations of the past 50 years, Fukuhara says a bilateral relationship should, after all, be a reflection of how close the citizens of both nations feel toward each other, citing a "happy personal incident."

Early last year, explains Fukuhara, Shiseido's Tokyo headquarters received a telephone call from the U.S. The caller identified himself only as a longtime reader of *Esquire* magazine and a resident of Clifton, New Jersey, a town where Fukuhara lived in the late 1960s when he was president of Shiseido's struggling U.S. subsidiary.

The caller said he was prompted to pick up the phone after reading about Shiseido in a corporate ad in the magazine. Fukuhara had written about the importance of U.S.-Japan relations,

along with an incident he long remembers as a "very American gesture of friendship."

In the ad, Fukuhara recalled his passionate interest in orchid cultivation. One day, a fellow member of the American Orchid Society—a resident of Clifton—made a surprise visit to Fukuhara's house, bringing ten pots of orchids. The gift was simply intended to cheer up Fukuhara, and make him feel at home in the United States.

"I cannot say how much peace of mind I got from his orchids during the remainder of my stay," Fukuhara wrote in the ad.

The response to his story was equally pleasing to Fukuhara. "I really appreciated the telephone call," he says. "The gentleman said he was touched to realize there are business executives in Japan who, like me, are genuinely interested in helping improve U.S.-Japan relations."

"He also said he felt good about the fact that a fellow resident of New Jersey helped me personally while the chips were down for me when, as I

wrote then, among other things our U.S. subsidiary couldn't pay my salary for half a year."

Shiseido's success, says Fukuhara, has significantly depended on good luck and "many good people" with whom Shiseido has shared its corporate philosophy.

To Fukuhara, human development is just as crucial to manufacturers as product development itself. "To come up with bona fide brand names," he says, "I believe a company must first of all have an insatiable desire to seek—and train—people who are both qualified professionals and cultured individuals."

"Honed by such people who share our vision and idealism," adds Fukuhara, "I am sure Shiseido will continue to do the utmost to contribute to the well-being of the people of the world."



Shiseido Bio-Performance Advanced Super Revitalizer (Cream) was awarded "Le Prix d'Excellence" as the best skincare product in Europe in 1988. The company is committed to excellence in all aspects of international activities.

SHISEIDO



"Latin America has an enormous appetite for capital, and Yamaichi is excited to play a positive role in the economic development of this region."

"The 1980s was the lost decade for Latin America, but the '90s will be the decade of hope." These are the words of Enrique Iglesias, President of the Inter-American Development Bank, quoted by **Hitoshi Ishihara**, Deputy President of Yamaichi Securities Co., Ltd., to describe his perception of Latin American prospects for growth.

In the last few years, the economies of all of the major Latin American countries have started

YAMAICHI SECURITIES



Hitoshi Ishihara
Yamaichi Securities Co., Ltd.

showing signs of a strong rebound, curing the malaise both of burgeoning debt and of skyrocketing inflation. Observes Ishihara, "Latin America now has an enormous appetite for capital."

Ishihara is happy to remark that Yamaichi has a long history of participating in Latin American investment banking activities, and is pleased by the new opportunities created as a result of the economic restructuring process. "Let me say that we're very excited that Yamaichi can play a very positive role by contributing to the economic development of this region."

For Yamaichi, there are several ways to be a part of this development process, including multicurrency underwriting, privatization, cross-border mergers and acquisitions and financial advisory services. Yamaichi has forged many local relationships that will allow it to develop the above busi-

ness lines and offer promising financial products for both its Japanese and non-Japanese clients.

Ishihara also noted the strong capital-raising efforts of the Latin American countries that are being used to finance the importation of capital goods and raise the economic productivity levels of the region. "The flow of capital to these economies will only increase as their economic, political and legal systems mature and demonstrate stability over extended periods," explains Ishihara.

Yamaichi has underwritten not only yen bonds, but also non-yen denominated bonds for

Latin American governments, government-owned entities and private companies. Ishihara cites some good examples of what a global brokerage house like Yamaichi can do: "We were the first Japanese securities firm to lead-manage a bond issue after the Latin American debt crisis, with a December 1990 \$75 million Eurobond issue for Dynaworld Trust, a subsidiary of Banca Serfin in Mexico. We have also acted as lead manager for four Eurobond issues for private- and public-sector names in Argentina."

A drastic shift has occurred in Latin America from regulated, state-intensive economies to free, open economies. As a result, a drive for privatization occurred, leading to a strong demand for capital. Argentina's Menem administration, for example, sold off YPF, Aerolíneas Argentinas, electrical and water services, railroad operation rights, highway toll concessions, petrochemical plants and steel mills.

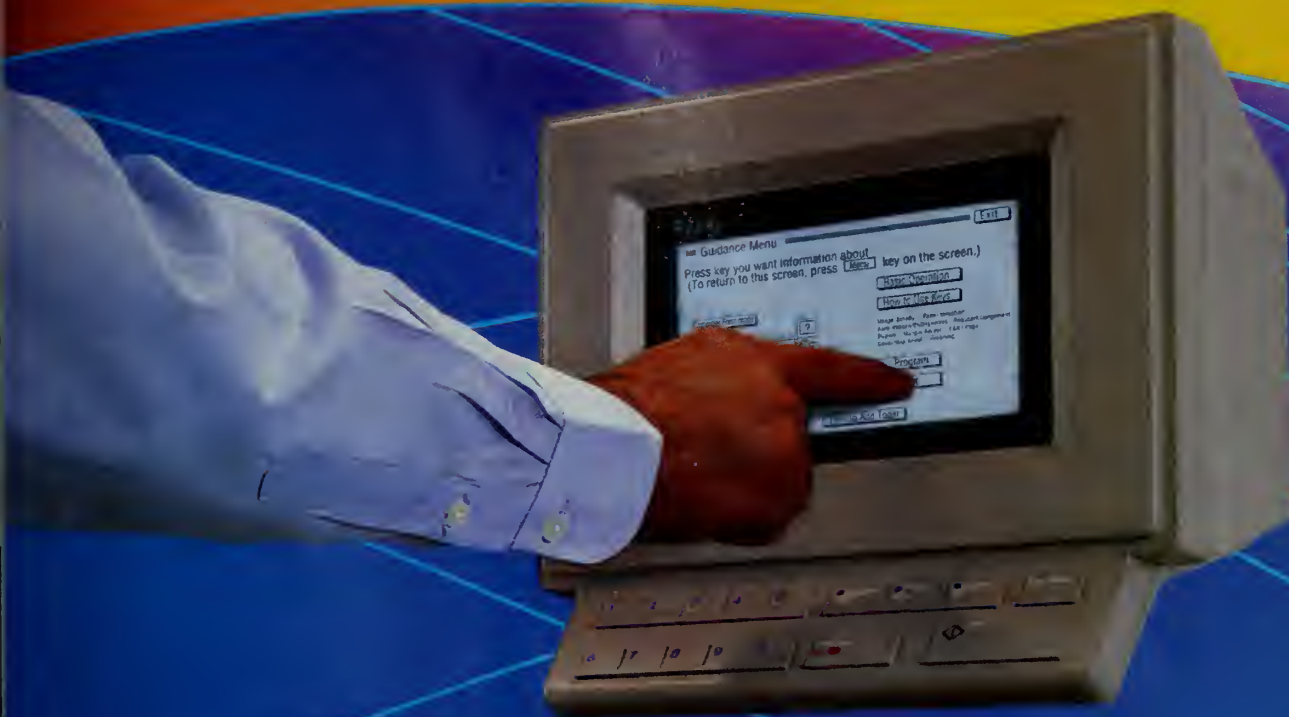
Similarly, Mexico's administration sold off several hundred state-owned industrial enterprises in the global market, requiring underwriting by international financial houses. Ishihara reports that Yamaichi has been actively involved in the privatization of these state entities, including YPF and Telmex, among others.

All of these developments will undoubtedly create a very strong demand for capital. Ishihara points out, "The U.S. can't provide all of the needed funds alone." He is confident that "Japanese money" and "Yamaichi's experience and international network will bring a lot of good to the Latin American continent, for capital is synonymous with investment, and investment is synonymous with jobs."

Yamaichi has other reasons for optimism: Japanese companies have started to invest in Latin America because it has a promising work force and other resources for production bases with both North and South America as potential markets. Most notably, Toyota will manufacture trucks in Argentina and Honda will produce cars in Mexico.

All the more hopeful and encouraging for Yamaichi is the impact of NAFTA and Mercosur. Says Ishihara, "We're considering establishing an office in Mexico since the country opened up its financial markets to foreign institutions."

"From underwriting to mergers and acquisitions, Yamaichi is well-equipped to assist Japanese as well as foreign investors," Ishihara declares. He is glad that the wind of liberalization is blowing across the Latin American continent, and he is positioning Yamaichi to take advantage of new opportunities in the region. ■



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Subsidiaries: U.S.A., Canada, F.R. Germany, Hong Kong, Australia and Singapore

"Japan appears to be steadily losing its charm as a lucrative international business center, because everything is simply too expensive—rents and labor included."

Ichiro Inumaru, President of Tokyo's Imperial Hotel, notes the Japanese hotel business continues to be hard-hit by a lingering recession.

"Some economists say the Japanese economy is gradually bottoming out, but I don't quite think so," says Inumaru, who served for many years as Chairman of the Japan Hotel Association.

He points out the slump in his business is manifested partly in a steady decline since the late 1980s in the number of foreign guests staying at his plush hotel, considered by many to be Japan's quintessential hotel, occupying a prime location in central Tokyo.

"As far as the hotel business is concerned," Inumaru notes, "1994 was worse than 1993, and there really are no visible signs of improvement."

"This to me is a clear indication that Japan is steadily losing its charm as a lucrative international business center, because everything is simply too expensive—rents and labor included. Fewer and fewer foreign businessmen are coming to do business in Japan."

Inumaru warns that Japan is rapidly being overtaken by other nations in Asia, such as China, Hong Kong and Singapore, pointing out that the Japanese government and bureaucracy have neglected to increase imports and to rectify Japan's intricate distribution system.

"Last year, the Imperial Hotel alone spent \$23 million on imported food and beverages, which accounted for some 35% of our annual expenditures," he says. "However, we didn't find these imports any cheaper than those available in Japan—primarily because of the domestic distribution mechanism that pushes up the prices unreasonably."

"Too many barriers still exist in Japan," continues Inumaru, "including regulatory measures that discourage increased imports and domestic consumption. What Japan needs is a major reform. And to realize it, Japan badly needs a full-fledged two-party political system and enlightened leadership sensitive to its international leadership role."

"I believe that such a reform can really make many good things happen, not only to Japan, but to the whole world."

Inumaru, the first postwar Japanese graduate of Cornell University's Hotel School and a well-recognized observer of the U.S.-Japan relationship, slips into a pensive mood as he ponders Japan's future.

He is gravely concerned that, unless Japan

overcomes its "complacency" with the U.S., Japan's credibility as the world's No. 2 economic power will be seriously impaired.

Inumaru is sharply critical of what he describes as Japan's "lack of resolve" to behave as a responsible member of the international community.

With the U.S. having protected Japan for so long after World War II under the terms of the U.S.-Japan Security Treaty, he feels Japan has come to "take America's commitment to Japan's security for granted."

"Japan is almost completely numbed by the postwar domestic stability and prosperity it has enjoyed thanks to its alliance with the U.S. I'm afraid Japan has lost sight of its international responsibilities."

"The U.S. definitely wants Japan to act as an equal partner, willing to shoulder international responsibilities commensurate with its economic power. But most Japanese now feel their wealthy nation should not get involved in international affairs—because the U.S. will somehow tackle them on Japan's behalf."

Because of such a posture, Inumaru sees Japan steadily alienating itself from the international community despite frequent monetary cooperation, including ODA (Official Development Aid) and the \$11 billion Gulf War contribution.

"The world wants and needs Japan to commit itself more resolutely to the stability of the international community," he says, expressing concern that Japanese leaders often fail to comprehend this. Inumaru holds Japan's "visionless political leadership" responsible for its "often sad behavior" on the international scene.

"I'm afraid postwar Japan has failed to nurture political leaders with lofty visions and an enlightened awareness of Japan's national interests in an international era," he observes. "All they appear to be concerned with is the peace and prosperity of Japan alone." **F**



IMPERIAL HOTEL



Ichiro Inumaru
Imperial Hotel, Ltd.

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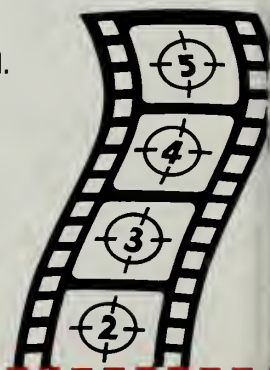
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Scene from *The Fugitive* courtesy of Warner Bros.

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In Touch with Tomorrow
TOSHIBA



"Operating in the U.S. is a valuable asset for Minolta because the nation is experimenting with digital technologies that will dominate the industry of the future."

"The U.S. is the single largest overseas market for our cameras and office equipment. So I want the relationship between Japan and the U.S. to stay very friendly, although I am afraid it is getting sour, as was seen in the recent trade disputes," says **Hiroshi Fujii, President of Minolta Corporation** of New Jersey, a North American sales arm of Minolta Co., Ltd.

He has been in the U.S. for 15 years altogether in two separate terms, and has looked at the

bilateral relationship from both countries. He comments, "You can see Japan more objectively once you place yourself outside of the country. Then, you will better understand what Americans have to say about Japan: Americans find the Japanese market hard to penetrate.

"It appears that there are still too many barriers, both visible and invisible, in Japan. Those barriers inhibit free competition in the marketplace, discouraging entrepreneurs and depriving them of business opportunities.

"Why is the United States so far ahead in the digital revolution? It is because there is freedom for everyone to try out all possibilities. Operating in the U.S. is a valuable asset for Minolta because the nation is experimenting with digital technologies that will dominate the industry of the future."

Thanks to the market freedom prevailing in the

U.S., Minolta's business has been successful. Americans are familiar with Minolta's cameras and copiers. Minolta supplies U.S. manufacturers with key components of laser beam printers that are selling briskly as the demand for personal computers increases.

Fujii's company, however, has become what it is today only after making untiring efforts over the years to adapt itself to the U.S. business climate. He says, "There was a rush of Japanese companies to the U.S. setting up manufacturing facilities in the 1980s. In my opinion, only one out of five of them is really successful. The rest

are still having a hard time, largely because of differences in terms of business culture between the two countries."

Fujii says, "Minolta is well-established in the U.S. because, we believe, it's essentially an American company with Americans managing Americans."

He is glad that he is in the place where the digital revolution is taking place, saying, "You can feel the pulse of development. Imagine the driving force behind it: Out of an estimated 130 million personal computers worldwide, roughly 80 million are in the U.S. and about half of those will be networked for digital communications by the year 1995.

"Opportunities abound in the area where you integrate computer software, peripherals such as scanners and printers, and communications. Success depends on how to combine devices and software into a new product," he says.

"Speed is vitally important in developing new products since what has been a gradual evolution so far is now going into an explosive phase. For speed, research and development should be done in a place where the action is and you are fully committed. If you can't do everything in a timely fashion by yourself, strategic alliances with other companies help you gain necessary speed," he adds.

According to Fujii, the U.S. is the place for a distribution revolution, too. In the recent past, distribution channels such as mass merchandisers, warehouse clubs and catalog showrooms emerged and all kinds of distribution methods have been tried. He has closely observed the ups and downs of various channels in the marketplace and contends: "Consumers are not buying a product only because it is cheaper. There is a greater emphasis on customer satisfaction, at least for the kind of products Minolta offers. To achieve higher customer satisfaction, you have to have creative salespeople to listen to the voice of the customer and feed it back to your engineers. Only after that can you offer the kind of value your customers are looking for." He cites a CPU feature named "Watch Dog" that is integrated in the new models of Minolta's copiers as a good example. It functions as a watch dog to ensure automatic control of machines without involving users.

"Minolta is doing its share to be a part of the community," remarks the Minolta president. "Our endeavors include the sponsoring of exchange programs of high school students between Ramsey, New Jersey, where the company is headquartered, and Fukui Prefecture of Japan, and efforts accommodating minority hiring in our company." **F**

MINOLTA



Hiroshi Fujii
Minolta Corporation



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raw pieces of information into a solid gem.



At a securities firm as in any case, knowledge is power of course. The amount and quality of knowledge, or in another word information, largely affects the power of any individual or organization.

Daiwa Securities, always taking this point into deep consideration, has established a history of gaining highly qualitative information instantly through its worldwide financial network.

Although, collecting significant information continuously is rather a superficial factor for Daiwa to be one of the most powerful financial institutions in the world today.

Daiwa further believes that information must be treated in a way to transfigure it into true power.

This treatment is adding "wisdom" to information, which encompasses the essences of "experience," "precise analysis" and "innovative viewpoints."

The power that leads Daiwa to top in various fields from underwriting, brokerage, product development, research, venture capital, asset management to investment trust is the reinforcement of knowledge with wisdom.

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"The only thing we deliver or are trying to deliver to our guests is satisfaction. We have nothing else."

"We have been relentlessly pursuing ways to satisfy guests since long before 'customer satisfaction' became a buzz word," says **Koichi Satow,**

President and General Manager of the Hotel Okura. "Why, the only thing we deliver or are trying to deliver to our guests is satisfaction. We have nothing else."

"I want our guests to keep coming back over and over again. In fact, I am glad to say that most of our guests are repeaters. That's the best measure of satisfaction," he continues, "but that's not enough. You always have to go out front for ultimate guest satisfaction."

"For traveling business people, we provided years ago a business center and health facilities. Both were firsts in Japan. Recently, we have installed private fax and data lines with individual numbers, which represent a total of 2,250 telephone lines for a 875-room hotel."

"We have just introduced a jet-lag-fighting plan under the supervision of Dr. Mitsuo Sasaki, a consultant for NASA. The plan consists of physical exercise, relaxation and nutrition programs. It works for busy travelers."

"There are other considerations to make a hotel more satisfying," Satow declares. "What if a mega-earthquake hits you in the middle of the

night damaging the kitchen? Will you say: 'I'm sorry, sir, no breakfast?' Obviously you can't. In our business, no excuse is accepted when something goes wrong. We have provisions of food and water for three days."

"We have remodeled our facilities to make our hotel more useful for the physically disabled. Also, we are operating a 24-hour intercom service system so that guests can call us for assistance when they are in trouble."

The Hotel Okura president is confident in the services his hotel provides. But he admits that guests are becoming more value-conscious

and there is no accounting for personal tastes. Environmental concerns motivate some people to opt for frugality rather than abundance.

"So, I emphasize the personal touch, which enhances individually tailored services," Satow says. In this context, he firmly believes that employee satisfaction should come first before guest satisfaction.

"You can be kind enough to your guests only when you are happy. If you are worried, you will look worried. That won't make for good communication," he points out. He knows an employee's loyalty and productivity come from his or her satisfaction with and pride in the job.

Sitting on a Victorian armchair in a plush suite against the backdrop of a very clean window that frames a part of the old quarters of the U.S. Embassy, he reveals the sources of his wisdom: Dale Carnegie's *How to Win Friends and Influence People*; Dr. Inazo Nitobe, who taught him the importance of common sense when he was young and whose face he sees printed on the 5,000-yen bank note; and Reinhold Niebuhr.

"O God, give us serenity to accept what cannot be changed, courage to change what should be changed, and wisdom to distinguish the one from the other." He is serious in quoting these words of Niebuhr's. "These words are what I remind myself whenever I make big decisions. They are divinely inspired, particularly under the present circumstances in which things change so rapidly and new business concepts come and go."

Along with the expansion of the Hotel Okura Chain, both in Japan and overseas—now 21 hotels with 6,318 rooms altogether—Satow's management agenda keeps growing, and his mind is put to the test more and more frequently.

The Hotel Okura Chain has joined the Asia Pacific Council of the International Hotels Environment Initiative (IHEI), which was initiated by the Prince of Wales in 1991. "As a part of the travel and tourism industry, which is the world's largest and provides 200 million jobs worldwide, we, too, are responsible for the health of the earth," he says.

The Hotel Okura has been a symbolic presence in and witness to the friendly U.S.-Japan relationship since its inauguration four decades ago, because American guests have constituted the backbone of its business. Satow points out with concern, "One out of three guests we had four years ago was American, compared to one out of four these days. The over-valued yen and the sour relationship between the two countries may explain the decrease. But I'm sure Americans will come back." **F**

HOTEL OKURA



Koichi Satow
Hotel Okura Co., Ltd.

Forbes

Nihonban

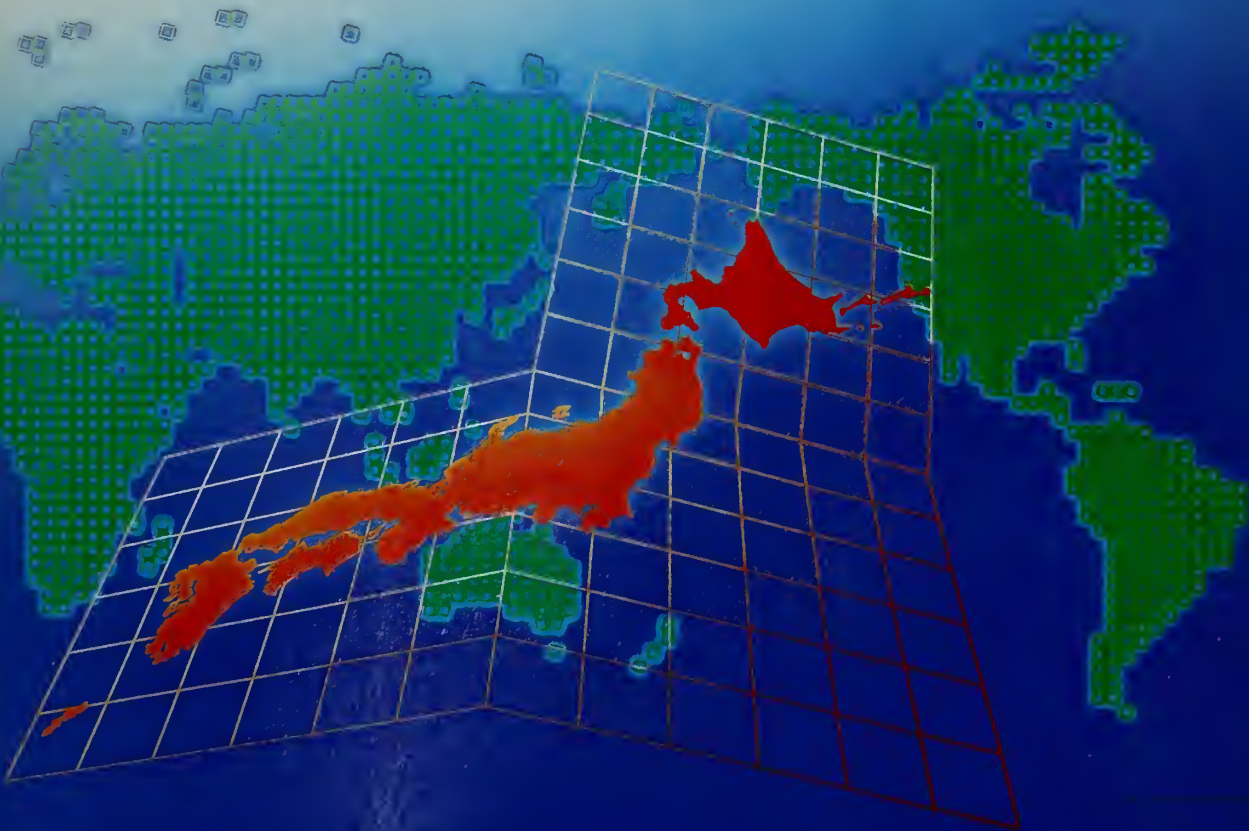
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"Amway is going to get bigger. Amway will assist more Japanese people who want to take a little more control over the direction of their lives."

"You can go to any town in Japan and find an Amway distributor. Anywhere!" beams Richard Johnson, President of Amway Japan Limited. Amway's enormous success in Japan is indeed stunning. Since its inception in 1979, Amway has established itself as one of the largest and most successful direct-selling companies in Japan.

Today, Amway distributes over 125 consumer products, ranging from home care to housewares to nutrition products, through a net-

work of almost 900,000 distributors who renewed the sales contract with the company. The number represents roughly 1.5% of the Japanese population, since a husband-wife couple comprises a distributor.

Amway's performance in the 1994 fiscal year is striking. Despite the current recession, the sales jumped to ¥157 billion, and the net income ¥20.6 billion. Amway aims to achieve ¥200 billion soon.

With its bright outlook, Amway Japan listed its stock on the OTC market in April 1991. Similarly, Amway Asia Pacific Limited went public on the New York Stock Exchange in December 1993, and also Amway Japan in June 1994.

"By listing on the New York Stock Exchange, we gave the investors an opportunity to compare our stock with other investment opportunities on an equal-term basis," says Johnson, expressing

confidence in its future growth.

How did Amway crack the Japanese market? Why did an American-born marketing method flourish so fast in a country so culturally different?

Japan is a nation seen by many outsiders as not sufficiently open to foreign companies. The country has been criticized for social practices and customs that are perceived as hindering imports. In the case of Amway, the company is successful, not in spite of, but because of the Japanese culture.

"Amway's business concept of 'relationship

marketing' works even better in Japan than in the U.S., because it fits the nature of the Japanese culture: Japanese people place a high value on close personal relationships," observes Johnson.

Amway's approach is simple: Distributors demonstrate and sell products in the home of the consumer. Its products do not go through multi-layered distribution systems. Instead, Amway distributors rely heavily on personal relationships with friends, neighbors and relatives.

"But this works only when the product is good quality and earns quick acceptance. Only good products sell because distributors will not compromise personal relationships just to sell products," Johnson adds.

"A good example is a water purifier specially designed for the Japanese consumers. We developed The Amway Water Treatment System taking the chemical characteristics of Japanese water into consideration. Thanks to these efforts, it has proved to be one of Amway's most successful products, not only in Japan, but anywhere in the world," he says.

As its huge success has secured it "a true part in the Japanese community," Amway has been actively seeking "to pay the community back." One way Amway does this is through sponsoring cultural events, mostly by bringing American arts and music to Japan.

Another is by making contributions to efforts to preserve the environment, one of the strongest concerns for Amway since its establishment in 1959. Amway Japan formed the "Amway Nature Center" in 1989 and set up a fund within the company to "raise the consciousness of the huge family of distributors to become better environmental citizens." The fund is "used to make contributions to local environmental problems in Japan."

Amway's growth in Japan is still going strong and Johnson is ambitious. "We are going to get bigger. That is a clear objective of ours."

Johnson says, "Amway is planning to add new business lines and is seeking around the globe investors and companies that have products and the willingness to join us in the Japanese market.

"Then, our distributors will find ever-broadening lines of products and services that will be increasingly easy to offer to a widening audience of customers."

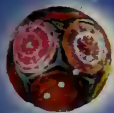
He adds, "Most important for the company is that there will be a greater number of people in Japan who find they would like to take a little more control over the direction of their lives."

He hopes that they will find Amway to be "the company that can facilitate that desire." **F**

AMWAY JAPAN



Richard S. Johnson
Amway Japan Limited



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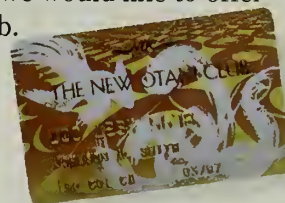
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The 17th Annual Special Japan
Supplement, 1995, was written by Shisho
Matsushima, Strategies Inc., Tokyo, and
Ko Shioya, a journalist based in
Tokyo. Designed by Atsumi Matsui,
01 Design Office, Tokyo.
Photographed by Yujiro Koguchi,
Masaki Studio, Tokyo.

Who's where in the stock market

Are stocks cheap? is a dumb question. The smarter way to ask it is: Are they cheap relative to their earnings potential and to the cost of money?

By Ronald Boone Jr.

By and large, the profitability yardsticks and industry surveys throughout this issue evoke an economy that was strong in 1994 and is entering 1995 with the wind at its back. Momentum is especially strong in such key sectors as consumer durables, chemicals, health, computers and communications, and capital goods.

But while Main Street is thriving, Wall Street is in a funk. Since last February—when the Standard & Poor's 500 peaked—the index is down 7%. The common stocks of such companies as GM, Bethlehem Steel and Chase Manhattan have crumbled to the point where they sell at less than six times estimated 1995 earnings.

There are many factors involved in this disparity between Main and Wall streets, but two stand out. One: During the bull market of 1991-93, stock prices were bid to levels that were, by any historical standard, excessive. By the summer of 1993, the S&P 500 was selling at about 20 times trailing 12-month earnings; its dividend yield was just 2.5%. For the past four decades, stocks have traded at an average 15 times earnings and yielded 3.7%. So, based solely on past relationships among prices, earnings and income, a stock market correction of some magnitude was likely.

The other factor, of course, is the cost of money. Stock prices exploded in the early 1990s because money became so cheap. With money market funds paying 2.5%, why not buy stocks yielding 2% with upside potential? Then Alan Greenspan began pushing the Fed funds rate back up—by 250 basis points, to 5.5% as 1994 ended. Stock yields suddenly looked a lot less enticing.

What's in store on Wall Street this year depends largely on Mr. Greenspan (or his successor: The chairman's term

ends in March 1996). But even if the Fed continues to raise rates, stock prices of many companies have been hammered enough over the past year to remove a large measure of risk, especially in relation to the companies' earnings potential.

Industry forecast, 1995

Industry	Industry average P/E	
	1995 est	latest 12 mos
Financial services	8.2	9.7
Insurance	9.4	12.1
Electric utilities	10.3	12.0
Consumer durables	10.9	15.0
Aerospace & defense	11.3	15.8
Construction	11.5	17.2
Transport	12.2	16.1
Metals	12.9	21.7
Consumer nondurables	13.1	15.9
Chemicals	13.4	20.1
Capital goods	13.6	20.2
Forest products & packaging	13.6	28.8
Business services & supplies	14.1	18.8
Food distributors	14.2	19.7
Retailing	14.2	19.8
Food drink & tobacco	14.5	20.6
Computers & communications	14.7	20.4
Travel	15.0	17.6
Energy	15.9	20.6
Health	15.9	22.1
Entertainment & information	16.7	17.7

Although investors have been bearish, security analysts are bullish about corporate earnings prospects. Based on consensus estimates from IBES, Inc., the financial services sector has the lowest estimated 1995 P/E multiple. Even the most expensive group, entertainment & information, selling for almost 17 times estimated earnings, is priced below where the market was just a few months ago.

Rank	Company	5-year price change %	Recent price	1995 estimate \$	EPS Current yield %
1196	AAR	-66.3	12½	0.95	4.0
277	Abbott Laboratories	90.4	32½	2.09	2.3
NR	Abex	NA	6½	NA	0.0
647	ABM Industries	23.0	20%	NA	2.6
922	Acme Metals	-8.3	16½	2.46	0.0
1189	Actava Group	-62.5	9%	NA	0.0
NR	ACX Technologies	NA	37¼	2.10	0.0
145	Adams Res & Energy	157.7	8%	NA	0.4
489	Adia Services	43.9	35¼	2.25	0.5
101	Advanced Micro	212.7	24%	3.63	0.0
154	ADVO	150.0	18¼	1.24	0.5
1011	Aetna Life & Cas	-19.2	45%	6.01	6.0
173	Aflac	137.8	34¼	3.21	1.3
NR	AGCO	NA	34½	4.03	0.1
931	HF Ahmanson	-9.2	17¼	2.39	5.1

Rank	Company	5-year price change %	Recent price	1995 estimate \$	EPS Current yield %
1198	Air & Water Tech	-69.0	6%	NA	0.0
56	Air Express Intl	331.0	28¼	1.94	0.8
269	Air Prods & Chems	92.7	46¼	3.08	2.1
786	Airborne Freight	7.4	19	1.99	1.6
46	Airgas	376.1	27%	1.20	0.0
NR	AirTouch Commun	NA	28%	0.37	0.0
NR	AK Steel Holding	NA	28%	7.79	0.0
422	Akzo Nobel	55.6	57%	6.13	3.1
996	Alaska Air Group	-17.6	17	1.55	0.0
862	Albany International	-2.6	18%	1.30	1.9
NR	Albemarle	NA	14%	0.93	1.4
732	Alberto-Culver	13.2	25¼	1.77	1.1
205	Albertson's	116.2	30	1.81	1.5
770	Alcan Aluminium	9.3	25	1.67	1.2
366	Alco Standard	67.4	57¼	3.55	1.7

Note: Except as indicated, price changes are from Dec. 31, 1989 to Nov. 16, 1994. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available.

Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
161	Alex Brown	147.7	26%	4.51	2.6
1092	Alexander & Alexander	-34.7	20	1.07	0.5
1115	Alexander & Baldwin	-39.0	22%	1.78	3.8
318	Allegheny	79.2	148½	NA	0.0
507	Allegheny Ludlum	42.1	19½	1.41	2.5
863	Allegheny Power	-2.7	20¾	1.97	8.0
42	Allen Group	403.9	24%	1.31	0.6
344	Allergan	72.7	30	1.85	1.5
1094	Alliance Pharmaceut	-35.1	7%	-1.44	0.0
121	Alliant Techsystems	183.0*	37½	3.80	0.0
112	Allied Group	195.8	26%	3.34	2.3
255	AlliedSignal	95.7	34½	3.09	2.0
417	Allmerica Prop & Cas	56.1	15%	2.31	1.0
NR	Allstate	NA	23¾	2.99	3.0
477	Alltel	46.0	28%	1.83	3.4
NR	Alumax	NA	26%	1.70	0.0
749	Alcoa	11.7	83¾	4.56	1.9
NR	AM International	NA	10	NA	0.0
619	AMC Entertainment	26.1†	10%	0.60	0.0
1061	Amdahl	-27.0	10½	0.71	0.0
870	Amerada Hess	-3.3	47½	1.55	1.3
NR	Amerco	NA	17¼	NA	0.0
1226	America West Airlines	-90.1	10	1.35	0.0
345	American Bankers	72.6	20½	3.04	3.5
879	American Brands	-4.6	33%	3.47	5.9
488	Amer Business Prods	43.9	20%	1.95	3.9
867	American Electric	-3.0	32	2.85	7.5
944	American Express	-10.4†	31¼	3.05	2.9
317	American General	79.2	28	3.24	4.1
391	American Greetings	61.0	28%	2.28	2.0
683	American Home Prods	19.5	64¼	5.10	4.7
352	American Intl Group	71.0	94%	7.53	0.5
715	American Maize	15.9	22%	NA	2.8
57	American Medical	324.4*	23%	1.40	0.0
548	American Natl Ins	35.5	46¾	6.00	5.0
963	American Premier	-12.7†	24	1.84	3.7
334	American President	75.1	24%	2.78	1.6
NR	American Re	NA	28%	2.96	0.0
264	American Stores	94.7	27½	2.26	1.7
467	American Water Works	47.6	26¾	2.47	4.0
692	Ameritech	18.4	40¼	3.19	4.8
1032	Ameron	-22.8	35%	3.55	3.6
NR	Ames Dept Stores	NA	3	NA	0.0
574	Ametek	32.4	17%	1.37	1.3
24	Amgen	596.4	56%	3.69	0.0
740	Amoco	12.4	61%	4.18	3.6
374	AMP	64.0	73	4.04	2.3
132	Amphenol	169.4†	24¼	1.11	0.0
951	AMR	-11.0	51%	5.84	0.0
1188	Amsco International	-61.4†	8%	0.82	0.0
291	AmSouth Bancorp	84.7	29¼	3.34	5.2
NR	Amtran	NA	7%	1.15	0.0
1126	Anacomp	-41.2	2½	0.46	0.0
76	Analog Devices	266.7	35¾	1.81	0.0
13	Anchor Bancorp	909.1	13%	1.93	0.0
29	Andrew	530.6	51½	1.83	0.0
981	Angelica	-14.8	25%	1.78	3.6
585	Anheuser-Busch Cos	31.2	50½	4.30	3.2
137	AnnTaylor Stores	166.1†	40¼	1.91	0.0
279	Anthem Electronics	90.0	33¼	2.36	0.0
626	Anthony Industries	25.1	16%	1.30	2.5
727	Aon	14.1	32½	3.37	4.0
503	Apache	42.2	26%	1.01	1.1
713	Apogee Enterprises	16.1	18	1.25	1.8
712	Apple Computer	16.1	41	3.47	1.2
1083	Applied BioScience	-31.4	5%	0.38	0.0
21	Applied Materials	617.5	51½	3.19	0.0

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
776	Applied Power	8.3	24%	1.77	0.5
474	Arbor Drugs	46.7	22	1.42	1.4
419	Archer Daniels	55.9	18%	1.24	0.5
650	Argonaut Group	22.9	28%	3.45	4.1
NR	Arkansas Best	NA	12½	1.35	0.3
1110	Armco	-38.4	6%	0.45	0.0
746	Armstrong World Inds	12.1	41¼	4.89	3.1
14	Arrow Electronics	890.3	38%	3.52	0.0
390	Arvin Industries	61.1	25%	2.35	3.0
884	Asarco	-5.0	28%	2.68	1.4
892	Ashland Oil	-5.6	37¾	3.36	2.9
288	Assoc Natural Gas	86.1	38%	1.87	0.3
158	AST Research	148.2	12%	-1.29	0.0
729	AT&T	13.5	51%	3.60	2.6
1089	Guy F Atkinson	-33.3	10	NA	0.0
834	Atlanta Gas Light	2.1	31	2.34	6.7
972	Atlantic Energy	-13.6	16%	1.75	9.3
906	Atlantic Richfield	-6.8	103¾	6.55	5.3
181	Automatic Data	133.2	57%	2.73	1.1
420	AutoZone	55.7†	26%	0.96	0.0
831	Avery Dennison	2.3	33%	2.28	3.3
NR	Aviall	NA	10%	1.00	0.4
639	Avnet	24.2	38½	2.97	1.6
355	Avon Products	70.5†	62%	4.31	3.2
1118	Avondale Industries	-40.0	7%	NA	0.0
1068	Aztar	-28.8	5%	0.58	0.0
1002	J Baker	-18.2	16%	2.08	0.4
1045	Baker Hughes	-24.0	19%	0.75	2.4
974	Ball	-14.1†	28%	2.20	2.1
1180	Bally Entertainment	-58.7	6¼	0.70	0.0
902	Baltimore G&E	-6.5	21½	2.05	7.1
547	Banc One	35.5	26%	3.48	4.7
711	Bancorp Hawaii	16.3	25½	3.33	4.1
520	Bandag	39.2	58%	3.68	1.4
498	Bank of Boston	42.8	27%	3.93	4.0
449	Bank of New York	50.9	30%	4.06	4.2
431	BankAmerica	53.7	41%	6.02	3.9
NR	Bankers Life Holding	NA	18¼	2.73	3.3
499	Bankers Trust NY	42.6	59	9.82	6.1
514	BanPonce	40.7	30%	NA	3.3
217	Banta	111.3	32¾	2.60	1.6
675	CR Bard	20.3	26%	2.07	2.3
NR	Barnes & Noble	NA	27%	1.20	0.0
627	Barnes Group	25.0	36¼	3.60	4.4
754	Barnett Banks	11.4	40¼	5.14	4.1
439	Bassett Furniture Inds	52.6	29½	2.01	2.7
811	Bausch & Lomb	4.6	34	3.11	2.9
772	Baxter International	9.0†	27¼	2.28	3.9
323	BayBanks	77.6	55½	5.85	3.2
295	Bear Stearns Cos	83.4	15%	1.94	3.8
645	Bearings	23.3	34%	2.18	2.1
NR	Beazer Homes USA	NA	12%	2.12	0.0
360	Beckman Instruments	68.3	29%	2.35	1.3
441	Becton Dickinson	51.9	47	3.35	1.7
935	Bell Atlantic	-9.9	50%	3.81	5.5
394	Bell Industries	60.6	22¼	1.52	0.0
945	BellSouth	-10.6	51¾	4.46	5.3
506	AH Belo	42.1	54	3.44	1.1
517	Bemis	39.6	24	1.54	2.3
433	Beneficial	53.6	37%	4.52	4.6
917	Bergen Brunswig	-7.7	18	1.64	2.7
649	WR Berkley	23.0	33	2.52	1.3
184	Berkshire Hathaway	131.1	20,050	NA	0.0
2	Best Buy	2087.5	43%	2.07	0.0
897	Bethlehem Steel	-6.1	17%	3.42	0.0
412	Betz Laboratories	56.7	46%	2.64	3.1
154	Beverly Enterprises	150.0	15	0.98	0.0

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Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
324	BIC	77.5	27%	2.33	2.9
242	Big B	100.0	12%	1.04	1.3
654	Bindley Western Inds	22.6	12%	1.36	0.6
174	Biogen	137.3	39%	-0.08	0.0
635	Birmingham Steel	24.6	23%	1.97	1.7
606	Black & Decker	27.6	24%	1.66	1.6
569	Blair	32.9	40%	5.00	5.1
186	H&R Block	128.5	41%	2.38	3.0
812	Block Drug	4.4	34%	2.41	3.1
55	Blount	331.3	44%	3.38	1.3
302	Boatmen's Bancshs	82.0	29%	3.65	4.7
268	Bob Evans Farms	92.9	20%	1.47	1.4
728	Boeing	14.0	45%	2.21	2.2
1139	Boise Cascade	-45.9	24	1.13	2.5
1187	Borden	-60.4	13%	0.78	0.3
NR	Borg-Warner Auto	NA	24½	3.10	2.4
NR	Borg-Warner Security	NA	9½	1.28	0.0
835	Borland Intl	1.9	10½	-0.24	0.0
755	Boston Edison	11.3	22%	2.48	7.9
921	Bowater	-8.1	25%	1.10	2.4
NR	Bradlees	NA	15½	1.98	4.0
151	Briggs & Stratton	151.6	33½	3.64	3.0
87	Brinker Intl	244.5	22%	1.09	0.0
796	Bristol-Myers Squibb	6.3	59½	4.80	4.9
376	British Airways	63.8	61%	5.71	3.6
641	British Petroleum	24.1	81½	5.21	2.7
NR	Broadway Stores	NA	12	0.66	0.0
253	Broken Hill	96.2	57%	3.44	2.4
1200	Brooke Group	-69.9†	3½	NA	0.0
806	Brooklyn Union Gas	5.1	22½	1.86	6.0
848	Brown-Forman	-0.6	29%	2.33	3.4
691	Brown Group	18.4	32%	2.88	5.0
1063	Browning-Ferris Inds	-27.4	28%	1.78	2.4
1114	Bruno's	-39.0	9	0.59	2.9
586	Brunswick	31.0	18½	1.68	2.4
427	Burlington Coat	54.2	11½	1.35	0.0
NR	Burlington Industries	NA	10	1.44	0.0
425	Burlington Northern	54.8	48%	5.28	2.5
1016	Burlington Resources	-20.4	38%	1.56	1.4
239	Butler Manufacturing	101.4	34%	3.43	1.2
NR	Buttrey Food & Drug	NA	7%	0.21	0.0
984	BWIP Holding	-15.7†	18%	1.44	2.1
6	Cabletron Systems	1220.0	49½	2.66	0.0
423	Cablevision Systems	55.6	57%	-8.22	0.0
447	Cabot	51.2	27½	2.32	2.0
852	Cadence Design	-1.2	21	1.26	0.0
537	Caesars World	37.0	42%	3.99	0.0
367	Caldor	67.4†	30%	3.52	0.0
1225	California Federal	-89.4	10%	1.26	0.0
1103	CalMat	-36.5	19%	1.13	2.1
NR	Camco International	NA	20%	1.29	1.0
448	Campbell Soup	51.0	44%	2.76	2.8
1080	Canadian Pacific	-30.9	15%	1.11	2.1
20	Canadaigua Wine	657.6	33%	2.33	0.0
531	Canon	37.5	88	2.38	0.7
466	Capital Cities/ABC	48.0	83½	4.76	0.2
78	Cardinal Health	261.7	45%	1.94	0.3
NR	Caremark Intl	NA	19%	1.46	0.2
244	Carlisle Cos	99.2	32%	2.57	2.4
202	Carnival	118.2	21%	1.63	1.4
1146	Carolina Freight	-47.3	9%	0.50	0.0
751	Carolina Power & Lt	11.6	25%	2.36	6.6
685	Carpenter Technology	19.4	56%	4.50	4.2
NR	Carr-Gottstein Foods	NA	7½	0.71	0.0
NR	Carson Pirie Scott	NA	20	2.13	0.0
1066	Carter-Wallace	-28.4	13%	0.90	2.4
NR	Case	NA	20	2.50	1.0

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
179	Casey's General Store	133.7	13	0.97	0.6
478	AM Castle & Co	45.6	12½	1.90	2.9
1035	Castle Energy	-23.0	14½	NA	0.0
259	Caterpillar	95.2	56½	5.42	1.1
843	CBI Industries	0.2	21%	1.70	2.2
429	CBS	53.9	57%	3.80	0.7
NR	CCP Insurance	NA	14%	3.05	0.5
681	CDI	19.8	17%	1.28	0.0
NR	Cell Genesys	NA	6%	-1.54	0.0
1178	Centerior Energy	-58.2	8%	1.57	9.3
584	Centex	31.2	20%	2.24	1.0
566	Centocor	33.5	16%	-0.36	0.0
828	Central & So West	2.8	20%	2.08	8.2
833	Central Hudson G&E	2.1	24	2.70	8.7
1127	Central Maine Power	-41.2	12½	1.19	7.4
690	Central Newspapers	18.7	27	2.01	2.1
907	Central Steel & Wire	-6.9	605	NA	6.6
1118	Cephalon	-40.0†	8½	-1.82	0.0
471	Ceridian	46.9	26%	1.63	0.0
738	Champion Intl	12.5	36	2.30	0.6
620	Charming Shoppes	25.9	6%	0.74	1.3
NR	Charter Medical	NA	25½	2.74	0.0
809	Chase Manhattan	4.7	36%	6.13	4.4
896	Chemed	-6.0	33%	2.57	6.1
662	Chemical Banking	21.8	36%	6.03	4.8
407	Chesapeake	58.5	31½	2.58	2.3
621	Chevron	25.8	42%	3.20	4.3
NR	Chicago & N Western	NA	20½	2.21	0.0
1041	Chiquita Brands Intl	-23.7	13%	1.16	1.5
143	Chiron	161.0	74%	1.99	0.0
136	Chrysler	168.4	51	10.33	2.0
462	Chubb	48.8	70%	7.01	2.6
671	Church & Dwight	20.7	22%	1.23	1.9
726	Cigna	14.1	67%	7.11	4.5
1009	CLCorp	-19.0	31	2.83	7.9
1084	Cincinnati Bell	-32.1	18½	1.21	4.3
300	Cincinnati Financial	82.5	48%	4.27	2.6
496	Cincinnati Milacron	42.9	25	1.83	1.4
813	CINergy	4.2	21%	2.18	7.9
185	Cintas	130.4	34%	1.58	0.5
710	Cipscs	16.4	26%	2.42	7.5
171	Circuit City Stores	139.1	26	1.84	0.4
720	Circus Circus	15.2	21½	1.99	0.0
142	Cirrus Logic	161.9	27½	2.50	0.0
8	Cisco Systems	1107.7*	33%	1.67	0.0
414	Citicorp	56.3	45½	6.28	1.3
757	Citizens Utilities	10.9†	13	0.81	0.0
1100	CKE Restaurants	-36.0	8	0.60	1.0
298	Clark Equipment	82.9	67	7.22	0.0
48	Clayton Homes	360.4	13½	1.10	0.0
558	Clorox	34.5	56½	3.74	3.4
640	Club Med	24.2	23%	0.42	1.3
100	CML Group	214.6	10%	1.21	0.7
1129	CMS Energy	-41.4	22½	2.25	3.8
1088	CNA Financial	-33.3	65%	3.54	0.0
216	Coachmen Industries	111.3	14	2.10	1.7
666	Coast Savings Finl	21.3	14½	1.78	0.0
997	Coastal	-17.6	27½	2.40	1.5
129	Coca-Cola	170.5	52½	2.34	1.5
784	Coca-Cola Bottling	7.5	25	2.10	4.0
696	Coca-Cola Enterprises	18.0	18%	0.57	0.3
NR	Coleman	NA	32½	1.98	0.0
258	Colgate-Palmolive	95.3	62	4.35	2.6
644	Collagen	23.5	23	0.80	0.7
NR	Collins & Aikman	NA	8½	1.91	0.0
NR	Coltec Industries	NA	18½	1.70	0.0
1158	Columbia Gas System	-50.7	25%	3.34	0.0

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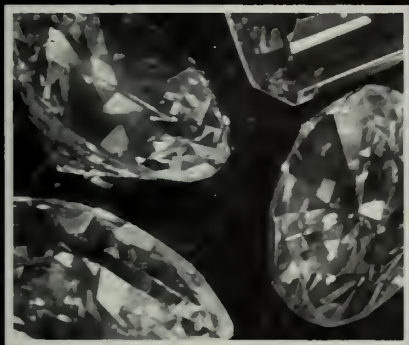
Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.

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Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
5	Columbia/HCA	1273.9*	39½	2.90	0.3
410	Comcast	57.8	17½	-0.37	0.5
903	Comdisco	-6.7	22	2.50	1.6
368	Comerica	67.1	26½	3.59	4.8
341	Commerce Bancshs	73.2	30¾	3.18	2.2
1012	Commerce Clearing	-19.8	17¼	0.98	4.1
26	Commerce Group Inc	550.0	16¼	2.35	1.2
40	Commercial Federal	429.0	20½	3.44	0.0
627	Commercial Intertech	25.0	18¾	1.52	2.7
416	Commercial Metals	56.2	25½	2.02	1.9
894	Commonwealth Energy	-5.9	36½	4.24	8.3
104	Compaq Computer	202.8	40½	3.84	0.0
1128	CompUSA	-41.3†	12¾	0.24	0.0
72	Computer Associates	277.0	47½	3.79	0.4
159	Computer Sciences	148.1	47¾	2.47	0.0
NR	Computervision	NA	3¾	0.30	0.0
766	Comsat	9.8	19½	2.03	4.0
375	ConAgra	63.8	31½	2.28	2.7
NR	Cone Mills	NA	11¼	1.53	0.0
857	Conner Peripherals	-1.9	12½	1.80	0.0
196	Conrail	120.9	52½	4.51	2.8
36	Conseco	447.0	36¾	7.13	1.4
983	Consolidated Edison	-15.5	24½	2.71	8.1
1000	Consol Freightways	-17.9	21¼	2.31	0.0
1067	Consol Natural Gas	-28.8	35½	2.40	5.4
820	Consolidated Papers	3.7	45½	2.94	2.8
51	Consolidated Stores	348.4	17½	1.35	0.0
NR	Continental Airlines	NA	16½	1.03	0.0
577	Continental Can	32.2	23½	2.10	0.0
1164	Continental Corp	-52.8	14½	1.16	0.0
914	Continental Medical	-7.4	7¼	0.70	0.0
NR	Control Data Systems	NA	6¼	0.75	0.0
930	Cooper Industries	-9.1‡	36¾	2.61	3.6
122	Cooper Tire & Rubber	182.6	22½	1.68	1.0
NR	Adolph Coors	NA	16½	1.32	3.0
656	CoreStates Financial	22.6	26½	3.34	5.2
475	Corning	46.5	31½	2.24	2.2
65	Countrywide Credit	300.9	14	1.90	2.3
49	Coventry	353.3†	25½	1.34	0.0
483	CPC International	44.7	53¾	3.53	2.5
1116	CPI	-39.0	20½	1.22	2.7
81	Cracker Barrel	255.2	20	1.17	0.1
693	Crane	18.3	27½	2.18	2.7
954	Crawford & Co	-11.1	15	1.36	3.3
1157	Cray Research	-50.6	19¼	2.03	0.0
552	Crestar Financial	35.2	38½	4.97	4.1
260	Crompton & Knowles	95.1	15	1.12	3.2
1155	Crown Central Pet	-49.8	15½	1.70	0.0
192	Crown Cork & Seal	122.4	39¾	2.74	0.0
274	CSX	90.9	68½	6.94	2.6
23	CUC International	598.2	30	1.25	0.0
326	Cummins Engine	77.3	45	5.82	2.2
888	Cyprus Amax Minerals	-5.2	25½	2.72	3.2
NR	Cytec Industries	NA	35½	3.28	0.0
NR	Daimler-Benz	NA	50¾	2.49	1.0
1142	Dairy Mart	-46.2	3¾	NA	0.0
597	Dana	29.2	22¾	2.61	3.8
94	Danaher	220.5	48¾	3.06	0.2
942	Dart Group	-10.2	83½	3.75	0.2
952	Data General	-11.0	11½	0.26	0.0
622	Dayton Hudson	25.7	80	6.71	2.1
587	Dean Foods	30.8	29	2.37	2.3
NR	Dean Witter Discover	NA	36¾	4.86	1.4
780	Deere & Co	7.9	66¾	7.70	3.3
1101	Delchamps	-36.0	17¾	1.82	2.5
7	Dell Computer	1156.1	46½	3.97	0.0
965	Delmarva Power & Lt	-13.2	18½	1.70	8.5

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
1044	Delta Air Lines	-24.0	51½	2.73	0.4
929	Delta Woodside Inds	-9.0	10½	0.97	4.0
995	Deluxe	-17.5	28¾	2.06	5.2
41	Dentsply Intl	410.2	31¼	2.28	1.0
NR	Detroit Diesel	NA	23¾	1.79	0.0
827	Detroit Edison	3.0	26½	2.68	7.9
893	Dexter	-5.7	20½	1.78	4.3
1086	Diagnostic Products	-32.2	22½	1.53	1.7
NR	Dial	NA	20¾	1.82	2.9
793	Diamond Shamrock	6.5	26½	2.67	2.1
310	Dibrell Brothers	80.2	20½	1.21	3.9
156	Diebold	149.1	42½	2.29	2.1
1173	Digital Equipment	-56.1	36	-0.58	0.0
698	Dillard Dept Stores	17.8	27¾	2.61	0.4
1025	Dime Bancorp	-22.0	8	1.17	0.0
413	Walt Disney	56.7	43¾	2.39	0.7
1171	Dixie Yarns	-54.1	7	0.75	2.9
1071	Dole	-29.1	24½	2.07	1.6
19	Dollar General	669.9	29¾	1.49	0.7
730	Dominion Resources	13.3	35½	3.20	7.2
119	Donaldson	184.8	21½	1.41	1.3
717	RR Donnelley & Sons	15.6	29¾	2.03	2.2
1010	Doskocil Cos	-19.2†	7½	1.00	0.0
271	Douglas & Lomason	91.5	15	2.63	2.7
457	Dover	49.3‡	53¾	3.89	1.9
890	Dow Chemical	-5.3	67¾	5.37	3.8
950	Dow Jones	-10.9	29¾	2.00	2.8
465	DPL	48.1	20	1.56	5.9
665	DQE	21.5	29	2.99	6.1
NR	Dr Pepper/Seven-Up	NA	25	1.37	0.0
859	Dress Barn	-2.2	11	0.96	0.0
881	Dresser Industries	-4.7‡	21½	1.30	3.2
303	Dreyer's Grand	82.0	25¼	0.68	1.0
1108	Drug Emporium	-37.9	5½	0.90	0.0
47	DSC Communications	375.9	34½	1.66	0.0
563	El du Pont de Nemours	33.8	54¾	4.56	3.4
527	Duke Power	38.5	38¾	3.04	5.0
664	Dun & Bradstreet	21.5	55½	4.06	4.7
608	Duracell Intl	27.2†	43¾	1.95	2.0
357	Dynatech	70.1	28½	2.35	0.0
594	E-Systems	30.0	40½	3.95	3.0
1219	Eagle Food Centers	-84.3	2¾	0.20	0.0
1232	Eagle-Picher Inds	-98.0	¼	NA	0.0
1052	Eastern Enterprises	-25.4	26	2.17	5.4
NR	Eastman Chemical	NA	52¾	4.43	3.0
NR	Eastman Kodak	NA	49¾	3.32	3.2
309	Eaton	80.3	51½	5.02	2.3
233	Echlin	103.2	31¼	2.44	2.4
NR	Eckerd	NA	28¾	2.60	0.0
452	Ecolab	50.0	21¾	1.53	2.1
1060	Edison Bros Stores	-26.8	23¼	1.69	5.3
290	AG Edwards	85.4	18	2.19	3.1
953	EG&G	-11.0	15½	1.26	3.7
1004	Egghead	-18.3	9¼	0.38	0.0
1223	El Paso Electric	-88.2	1	0.33	0.0
NR	El Paso Natural Gas	NA	34¾	3.08	3.5
705	Electrolux Group	16.8	53½	3.91	1.5
1195	Eljer Industries	-65.8	6¾	NA	0.0
1	EMC	4212.7	23¾	1.36	0.0
389	Emerson Electric	61.9‡	63¾	3.95	2.7
NR	Emphesys Finl Group	NA	32¾	3.98	1.8
140	Engelhard	163.0	22½	1.47	2.1
223	Enron	109.1	30½	2.09	2.7
1145	Enserch	-46.9	14½	0.76	1.4
868	Entergy	-3.2	22½	2.53	8.0
336	Equifax	75.0	28	1.82	2.2
NR	Equitable Cos	NA	19½	1.96	1.0

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Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
59	Equitable of Iowa	320.8	32½	3.21	1.5
797	Equitable Resources	6.2	29¾	2.34	4.0
315	ERLY Industries	79.6	10	NA	0.0
406	ESCO Electronics	58.5*	8½	NA	0.0
NR	Ethyl	NA	10½	0.87	4.6
436	Excel Inds	53.2	15½	1.77	2.4
667	Exxon	21.3	60½	4.11	4.9
386	Fabri-Centers of Amer	62.3	14½	1.31	0.0
1210	Fairchild	-76.0	3½	NA	0.0
222	Family Dollar Stores	109.4	11½	1.23	3.1
NR	F&M Distributors	NA	3¾	0.38	0.0
1027	Fay's	-22.1	6½	0.75	3.0
595	Federal Express	29.8	59¾	5.78	0.0
175	Federal Home Loan Mtg	135.8	52¾	5.81	2.0
813	Federal-Mogul	4.2	21½	2.21	2.2
211	Federal Natl Mortgage	115.1	72½	8.85	3.3
781	Federal Paper Board	7.8	27¾	2.30	3.6
127	Federal Signal	171.4	19¾	1.18	2.2
NR	Federated Dept Stores	NA	20½	1.80	0.0
508	Ferro	42.0	24¾	1.84	2.2
493	FHP International	43.1	27	1.82	0.0
80	Fidelity National	256.8	10	1.60	2.8
718	Fieldcrest Cannon	15.6	26	2.95	0.0
219	Fifth Third Bancorp	110.3	51½	4.27	2.4
1209	Figgie Intl	-75.6	6½	1.00	0.0
1214	Filene's Basement	-79.6†	6½	0.55	0.0
898	Fina	-6.2	70	NA	5.7
238	Fingerhut Cos	101.6*	16½	1.71	1.0
521	First American Corp	39.2	28¾	3.74	3.5
428	First American Finl	53.9	18½	2.40	3.2
215	First Bank System	111.9	35½	3.97	3.3
327	First Brands	76.7	33½	2.68	1.2
575	First Chicago	32.3	49½	6.84	4.1
NR	First Colony	NA	20¼	2.43	1.6
NR	First Data	NA	49½	2.22	0.2
187	First Empire State	127.8	149¾	17.90	1.6
248	First Fidelity Bncp	97.8	46	5.72	4.3
120	First Financial Mgmt	183.7	61	3.03	0.2
312	First Interstate Bncp	79.7	75¼	10.94	4.0
542	First Mississippi	35.9	21¾	2.21	1.6
502	First of America Bank	42.6	33½	4.35	5.0
296	First Security	83.1	26¼	3.24	4.0
134	First Tennessee Natl	169.1	44½	5.03	4.2
240	First Union	101.2	41½	5.71	4.4
339	Firststar	74.6	28¾	3.76	4.2
243	FirstFed Michigan	99.6	19½	3.57	2.9
321	Fisher Scientific	78.2†	27½	2.28	0.3
1194	Flagstar Cos	-65.0	7½	-0.03	0.0
687	Fleet Finl Group	19.1	31½	4.78	5.1
373	Fleetwood Enterprises	65.6	19¾	2.27	2.8
1037	Fleming Cos	-23.2	23½	2.03	5.2
774	Florida Progress	8.7	29	2.45	7.0
998	Florida Rock Inds	-17.7	26½	2.00	1.9
869	Flowers Industries	-3.3	18¾	1.07	4.4
642	Fluor	23.8	45½	2.65	1.1
361	FMC	68.1	59¼	5.39	0.0
NR	Foamex International	NA	9¼	1.34	0.0
1039	Food Lion	-23.3	5¼	0.40	1.6
1186	Foodarama Supermkts	-60.0	11¼	NA	0.0
NR	Foodmaker	NA	5¾	0.07	0.0
581	Ford Motor	31.8	28¾	5.42	3.6
909	Foremost Corp of Amer	-7.1	32½	3.55	3.3
1020	Forest City Enterprises	-20.9	31¼	NA	1.3
362	Foster Wheeler	68.1	34¾	2.09	2.1
54	Foundation Health	341.1*	37½	2.63	0.0
789	FoxMeyer Health	7.0	15½	1.15	0.0
925	FPL Group	-8.6	33¾	3.01	5.1

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
125	Franklin Resources	178.1	39¾	3.35	0.8
762	Freeport-McMoRan	10.2†	17½	0.52	0.0
343	Fremont General	72.9	23½	3.64	3.2
1163	Fretter	-52.8†	3½	NA	0.0
270	Fruit of the Loom	92.4	28½	2.49	0.0
200	HB Fuller	119.1	32½	2.46	1.8
1003	Future Now	-18.3†	8½	1.75	0.0
736	Gannett	12.6	49	3.53	2.8
115	Gap	190.0	37¼	2.60	1.3
NR	Gateway 2000	NA	22½	1.92	0.0
659	GATX	22.4	41½	4.31	3.6
738	Gaylord Container	12.5	9	1.28	0.0
378	Gaylord Entertainment	63.6†	24½	1.03	1.2
370	Geico	66.0	50½	3.46	2.0
900	GenCorp	-6.3	11¼	1.39	5.3
194	Genentech	122.3	46½	1.26	0.0
286	General Dynamics	87.2†	42	3.55	3.3
438	General Electric	52.7	49¼	3.83	2.9
1072	General Host	-29.3	4½	NA	0.0
NR	General Instrument	NA	34¾	1.69	0.0
405	General Mills	58.5	57¾	4.17	3.3
899	General Motors	-6.2	39¾	8.06	2.0
135	General Motors EDS	169.1	36¾	1.97	1.3
567	GM Hughes Electronics	33.3	34	2.79	2.4
NR	General Nutrition Cos	NA	27¼	1.41	0.0
795	General Public Utils	6.3	25½	2.81	7.2
556	General Re	34.7	117¾	8.73	1.6
470	General Signal	47.2	35½	2.67	2.5
1203	Genesco	-71.7	2½	0.27	0.0
686	Genetics Institute	19.4	40¾	-0.91	0.0
668	Geneva Steel	21.1*	13½	1.96	0.0
1175	Genlyte Group	-57.1	4½	NA	0.0
510	Genovese Drug Stores	41.3	10¼	1.20	2.2
1013	Gensia	-20.0*	5	-0.95	0.0
616	Genuine Parts	26.3	35½	2.57	3.3
189	Genzyme	125.0	32½	1.88	0.0
NR	Geon	NA	28¾	2.54	1.8
89	Georgia Gulf	236.5*	35¼	4.86	0.0
486	Georgia-Pacific	44.3	70	6.54	2.3
1121	Getty Petroleum	-40.1	11½	NA	0.0
1005	Giant Food	-18.4	23¼	1.70	3.1
1147	Gibson Greetings	-47.3	13½	1.13	2.9
294	Giddings & Lewis	83.4	15¼	1.18	0.8
NR	Gilead Sciences	NA	9	-2.08	0.0
109	Gillette	198.2	73¼	3.65	1.4
1055	PH Glatfelter	-26.3	16½	0.94	4.3
452	Glaxo Holdings	50.0	19½	1.43	5.3
NR	Glendale Federal Bank	NA	10¾	0.53	0.0
544	Golden West Finl	35.8	36½	4.31	0.9
266	Good Guys	93.8	11¾	1.21	0.0
771	BF Goodrich	9.0	45¼	2.79	4.9
1135	Goody's Family	-44.8†	9¾	1.14	0.0
387	Goodyear	62.1	35¼	4.18	2.3
700	Goulds Pumps	17.5	21	1.42	3.8
966	Govt Technology Svcs	-13.2†	11½	1.92	0.0
657	WR Grace	22.5	40½	3.45	3.5
364	WW Grainger	67.8	54½	3.80	1.5
487	GranCare	44.1†	18½	1.62	0.0
839	Grand Metropolitan	1.4*	26½	2.12	3.8
865	Granite Construction	-2.9*	21¼	1.61	0.9
531	Great American Mgmt	37.5	33	NA	0.0
1185	Great A&P Tea	-59.7	23¾	1.46	3.4
169	Great Lakes Chemical	139.7	56¾	4.55	0.7
883	Great Western Finl	-5.0	16½	2.15	5.5
851	Greif Brothers	-0.8	44¾	NA	0.7
946	Grey Advertising	-10.6	152	NA	2.1
1211	Greyhound Lines	-78.4†	2	NA	0.0

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Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.



Partnerships in Engineering Technology

Parker Hannifin and John Deere: Conquering Global Markets with Innovations

Thousands of pioneers helped open the heartland of America in the early 1800s, but a lone, ingenious blacksmith made it possible to tame the land and bring it under the farmer's dominion.

It was young John Deere who fashioned a discarded mill blade into the shape of a cresting wave. The arching design cut through the heavy black loam of the Midwest and then scoured itself clean — something no previous plow could do. Suddenly, farmers

to competitive models. Advanced engineering of these components delivers greater capacity, higher pressure and faster cycle times. And a new generation of "dry technology" provides the highest degree of leak resistance ever incorporated into a farm tractor.

To meet another technological challenge, Deere worked with Parker Hannifin engineers to develop the PermaClutch 2, used in a number of John Deere tractor models. Unlike conventional dry clutches, which absorb and build heat, the PermaClutch 2 cools after each engagement, maintaining an average operating temperature well below conventional designs. The PermaClutch 2's design breakthrough virtually eliminates the need for replacement. Such durability and reliability are vital in agriculture, where unplanned downtime can cause havoc with tight planting or harvesting schedules.

Reliability is a Deere hallmark. Powerful 7000-series tractors perform the most demanding field work hour after hour, day after day. All the while, a climate-controlled, "user-friendly" cab keeps the farmer warm, dry and comfortable. It's a far cry from the conditions farmers endured in founder John Deere's day and it's all part of the quality commitment Deere and Parker make to their customers.

That type of partnership is the driving force behind Parker Hannifin's worldwide preeminence in motion control components and systems, with more than 800 product lines for hydraulic, pneumatic and electro-mechanical applications in some 1,200 industrial and aerospace markets. Parker Hannifin operates some 200 manufacturing plants and administrative offices around the world and supports more than 4,900 distributors serving more than 289,000 customers in every corner of the globe.

Numbers aside, however, it's the meshing of innovation and problem-solving that makes Parker's components and systems the first choice for companies such as John Deere, as well as thousands of other customers around the world.



had a more efficient way to work the land, and America was on its way to becoming the world's most agriculturally productive nation.

Deere's invention also forged one of the world's most innovative companies. To this day, Deere & Company combines ingenuity with technology to meet the global challenges of agriculture. By its side, Parker Hannifin Corporation, the world's largest manufacturer of hydraulic and pneumatic components, is a partner in supplying the advanced engineering and products needed to extend the John Deere legacy of superior quality.

Consider, for example, the 7000-series, a new line of John Deere farm tractors. Each one utilizes hydraulic components and technology developed and manufactured by Parker Hannifin. Design upgrades have reduced the number of hydraulic lines compared



Parker and John Deere... Homegrown technology serving a worldwide market

Hans Becherer, Chairman of the Board and CEO of Deere & Company, continues the tradition of technical innovation begun by John Deere. This winning philosophy combines today's leading-edge technology with an old-fashioned commitment to genuine value and customer satisfaction that has made Deere & Company the world's leading producer of farm equipment.

That same kind of commitment to technological innovation and customer service has resulted in a long-standing partnership between Deere & Parker. In meeting

the challenge of producing its superior new line of commercial utility tractors, Deere called on Parker for vital technological teamwork.

Working together, Deere and Parker engineers designed the most advanced facility and manufacturing processes for assembly-line production of the new 5000-series tractors. By pre-assembling the fluid connectors, hoses, seals and other components in reusable containers, Deere saved time on production and delivery; keeping costs down and eliminating waste.

Parker components have also been specified on the new 7000-series tractor featured in the illustration.

The result: world-class tractors.

Partnerships like this one have helped establish Parker as a worldwide leader in motion-control.

Write for a copy of our Annual Report: Parker Hannifin Corporation, Dept. FB-23, 17325 Euclid Ave., Cleveland, OH 44112-1290. Or call 1-800-C-PARKER (1-800-272-7537) for product information.

A partnership in vital technologies



PH-NYSE

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %	Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
1151	Grossman's	-48.7	2 3/4	0.30	0.0	301	Huntington Bancshs	82.4	18 3/4	2.11	4.4
319	Grow Group	78.7	13 3/4	1.18	2.1	190	IBP	124.4	34 1/2	3.12	0.6
964	GTE	-12.9	30 1/2	2.55	6.2	1177	ICF Kaiser Intl	-58.0	3 3/4	0.15	0.0
NR	Gtech Holdings	NA	19 3/4	1.50	0.0	64	ICN Pharmaceuticals	308.8	23 1/4	1.80	1.1
617	Guilford Mills	26.3	20	2.31	3.0	934	IES Industries	-9.5	25	2.54	8.4
1230	Hadson	-94.3	2 1/4	NA	0.0	74	Illinois Central	273.4*	29 7/8	2.92	2.8
1005	Halliburton	-18.4	34 7/8	1.46	2.9	276	Illinois Tool Works	90.5	42 3/4	2.72	1.4
1149	Handleman	-47.6	11	1.17	4.0	823	Illinova	3.3	19 3/4	2.12	5.2
836	Handy & Harman	1.6	16 3/4	NA	1.2	723	IMC Global	14.4	38 3/4	3.11	0.0
540	MA Hanna	36.1	24 1/2	1.68	2.2	737	Immucor	12.5	6	0.35	0.0
450	Hannaford Bros	50.8	24 7/8	1.71	1.5	1122	Imo Industries	-40.2	9 1/2	1.12	0.0
1132	Hanover Direct	-42.6	3 7/8	0.19	0.0	NR	Imperial Chemical Inds	NA	49 3/4	3.32	4.2
853	Hanson	-1.4	18 1/4	1.42	6.1	1167	Imperial Holly	-53.6	8 1/2	NA	1.9
524	Harcourt General	38.8†	35 3/4	2.09	1.8	957	Inacom	-11.6	9 1/2	0.84	0.0
885	John H Harland	-5.1	21	1.89	4.7	819	Inco	3.7	27 7/8	1.44	1.4
34	Harley-Davidson	450.2	27	1.53	0.6	1160	Independent Insurance	-51.1	10 3/4	1.20	2.2
533	Harleysville Group	37.5	24	2.96	2.8	NR	Indresco	NA	12 7/8	1.26	0.0
322	Harman International	77.8	36	2.46	0.4	543	Ingersoll-Rand	35.8	34 1/8	2.49	2.2
660	Harnischfeger Inds	22.3	25 3/4	1.33	1.6	744	Ingles Markets	12.2	10 3/4	0.95	6.4
798	Harper Group	6.1	14 1/2	1.25	1.4	874	Inland Steel Inds	-3.7	32 1/2	4.56	0.0
583	Harris	31.3‡	43 1/2	3.72	2.9	45	Instrument Systems	378.6	8 3/4	0.85	0.0
377	Harsco	63.7	41 3/4	3.48	3.5	372	Integra Financial	65.8	41 1/4	5.32	4.4
1015	Hartford Steam Boiler	-20.3	42 3/4	2.99	5.2	83	Intel	254.3	61 1/8	6.90	0.4
1202	Hartmarx	-71.5	5 3/4	0.46	0.0	251	Intelligent Electron	96.4‡	13 3/8	1.86	2.9
NR	Harvard Industries	NA	16 3/4	NA	0.0	126	Inter-Regional Finl	172.1	23 3/8	3.75	2.8
160	Hasbro	148.0	31	2.51	0.9	NR	Interco	NA	14 3/4	1.33	0.0
1038	Hawaiian Electric	-23.3	30 3/4	2.74	7.6	1104	Interface	-36.6	11 1/4	1.13	2.1
NR	Hayes Wheels Intl	NA	22 3/4	2.14	0.3	1159	Intergraph	-50.7	8 1/2	0.08	0.0
162	Health Care & Retire	147.4†	27 3/4	1.51	0.0	1220	Interlake	-86.2	1 7/8	0.33	0.0
254	Health Systems Intl	96.1†	25 1/4	2.05	0.0	1062	Internet	-27.3	6	0.80	0.0
93	HealthSouth Rehab	221.7	37	2.11	0.0	1030	IBM	-22.7	72 3/4	6.12	1.4
199	HealthTrust	119.7†	33 1/2	2.37	0.0	241	Intl Flavors & Frags	100.4	45 1/4	2.21	2.4
994	Hechinger	-17.3	10 1/2	0.97	1.5	10	Intl Game Technology	989.3	17 3/4	1.26	0.7
44	Heilig-Meyers	378.6	29 1/4	1.66	0.8	948	Intl Multifoods	-10.8	17 1/4	1.65	4.6
790	HJ Heinz	6.8	37 3/4	2.53	3.9	623	International Paper	25.7	71	5.72	2.4
561	Helene Curtis Inds	34.2	33 3/4	2.12	0.7	1162	Intl Specialty Prods	-52.0†	7 1/2	0.60	0.7
106	Hercules	201.0	117 3/4	6.89	1.9	1153	Intl Technology	-49.1	3 1/2	0.24	0.0
590	Hershey Foods	30.3	46 3/4	3.37	2.8	231	Interpublic Group	106.9	33 3/4	2.12	1.7
226	Hewlett-Packard	108.5	98 1/2	6.73	1.2	1065	Interstate Bakeries	-28.3†	13	1.40	3.8
1207	Hexcel	-73.9	5	NA	0.0	992	Iowa-Illinois G&E	-17.1	19 1/4	2.02	9.0
1190	Hibernia	-63.1	8 3/4	1.05	3.0	769	Ipalco Enterprises	9.5	28 3/4	2.64	7.3
523	Hillenbrand Inds	38.9	30 3/4	2.31	1.9	380	Itel	63.1	35 3/4	1.42	0.0
172	Hillhaven	138.6*	20 3/4	1.52	0.0	480	ITT	45.4‡	85 3/4	8.68	2.3
NR	Hills Stores	NA	20 1/2	3.05	0.0	84	IVAX	252.9	18 3/4	1.32	0.3
1075	Hilton Hotels	-29.8	57 7/8	3.23	2.1	98	Jacobs Engineering	215.6	21 1/2	1.30	0.0
858	Holly	-1.9	25 3/4	3.36	1.6	1168	Jacobson Stores	-53.7	12 1/2	0.98	4.0
32	Home Depot	486.7	47 3/4	1.71	0.3	1033	James River Corp Va	-22.9	21 3/4	0.97	2.7
404	Home Shopping	58.6‡	11 1/2	0.65	0.0	1228	Jamesway	-93.1	1/2	NA	0.0
895	Homestake Mining	-5.9	18	0.77	1.1	NR	J&L Specialty Steel	NA	16 3/4	1.79	2.1
522	HON Industries	39.1	26 1/4	1.85	1.7	283	Jefferson-Pilot	87.5	53 1/4	4.44	3.2
550	Honda Motor	35.3	34	1.25	0.8	NR	Jefferson Smurfit	NA	17 1/4	1.36	0.0
511	Honeywell	41.2‡	30 3/4	2.46	3.3	1208	Jenny Craig	-75.4†	7 1/2	0.40	0.0
847	Horace Mann Educators	-0.6†	22 1/4	2.42	1.3	NR	John Alden Financial	NA	26 3/4	4.21	1.5
495	Hormel Foods	43.0	24 1/4	1.63	2.4	299	Johnson & Johnson	82.7	54 1/4	3.44	2.1
NR	Host Marriott	NA	10 3/4	-0.05	0.0	434	Johnson Controls	53.5	49 1/2	4.12	3.2
464	Houghton Mifflin	48.2	45 3/4	3.37	2.0	940	Jones Apparel Group	-10.2†	26 1/2	2.36	0.0
1221	House of Fabrics	-87.1	1 1/4	0.45	0.0	1112	Jostens	-38.6	17 3/4	0.93	5.1
512	Household Intl	41.2	36 3/4	4.16	3.4	166	Justin Industries	141.7	12 3/4	1.51	1.3
905	Houston Industries	-6.8	32 3/4	3.29	9.2	791	Kaman	6.8	9 3/4	0.98	4.5
1051	Hovnanian Enterprises	-25.0	6	1.01	0.0	613	Kansas City P&L	26.9	22 1/4	1.89	6.9
627	Howell	25.0	11 3/4	0.46	1.3	105	Kansas City Southern	201.6	34 3/4	3.13	0.9
473	Hubbell	46.8	58	3.83	3.0	880	Kaufman & Broad Home	-4.6	13	1.55	2.3
203	Hudson Foods	117.9	22 7/8	1.85	0.5	333	Kellogg	75.2	59 1/4	3.44	2.4
752	Huffy	11.5	14 3/4	1.35	2.4	568	Kellwood	33.1	19 3/4	2.34	3.0
876	Hughes Supply	-4.1	17 3/4	2.35	1.4	949	Kelly Services	-10.8	28	1.74	2.6
NR	Humana	NA	23 1/4	1.25	0.0	792	Kemper	6.6	50 1/4	4.24	1.8
682	JB Hunt Transport	19.6	15 3/4	1.35	1.3	306	Kennametal	81.7	27 1/4	1.83	2.2

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Sources: *Forbes*; *Wilshire Associates*; *Market Guide* & *IBES, Inc.* via *OneSource Information Services*.

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
901	Kerr-McGee	-6.4	47½	2.63	3.2
426	KeyCorp	54.6	26¾	4.00	4.9
946	Keystone Intl	-10.6	19	1.15	3.9
704	Kimball International	16.9	24¼	1.95	3.5
539	Kimberly-Clark	36.7	50¼	3.90	3.5
NR	Kinder-Care Learning	NA	13¾	NA	0.0
505	King World Prods	42.1	36½	2.88	0.0
967	Kmart	-13.2	15¼	1.60	6.3
518	KN Energy	39.6	23½	1.86	4.1
976	Knight-Ridder	-14.1	50½	3.62	3.0
NR	Kohl's	NA	43¾	2.25	0.0
332	Kroger	75.4	25½	2.42	0.0
611	KU Energy	26.9	26½	2.13	6.2
1217	LA Gear	-81.1	5½	0.23	0.0
351	La-Z-Boy Chair	71.1	30¾	2.36	2.2
688	Laclede Gas	19.1	20¼	NA	6.1
1141	LADD Furniture	-46.2	6½	0.67	2.0
802	Lafarge	5.8	18¼	1.97	1.6
77	Lancaster Colony	265.3	34¼	2.28	1.6
1054	Lance	-26.0	17¾	1.04	5.4
356	Lands' End	70.4	17¼	1.38	0.6
NR	Landstar System	NA	32¼	2.13	0.0
432	Lawyers Title	53.7†	10½	1.50	1.1
15	LDDS Communications	850.1	22¾	1.32	0.0
NR	Lear Seating	NA	21¼	1.65	0.0
669	Legent	21.0	31¼	2.31	0.0
164	Leggett & Platt	144.2	36¾	2.98	1.7
NR	Lehman Bros Holdings	NA	15½	1.78	1.3
176	Lennar	134.6	15¼	2.23	0.7
61	Leucadia National	314.0	44¼	4.00	0.6
NR	Levitz Furniture	NA	8½	1.14	0.0
557	LG&E Energy	34.5	37	2.88	5.8
673	Liberty Corp	20.5	26½	2.95	2.4
598	Life Technologies	29.1	17¾	1.38	1.1
911	Eli Lilly	-7.3	63½	4.46	3.9
702	Limited	17.1	20½	1.50	1.8
444	Lincoln Electric	51.4	42	NA	1.9
670	Lincoln National	20.7	36¾	4.19	4.7
915	Litton Industries	-7.4‡	35¼	2.77	0.0
922	Liz Claiborne	-8.3	22	1.78	2.0
293	Lockheed	83.7	71¾	7.29	3.2
267	Loctite	93.6	45¼	2.65	1.9
1059	Loews	-26.8	91	8.87	1.1
284	Lone Star Tech	87.5	7½	0.30	0.0
1023	Long Island Lighting	-21.6	15¾	2.17	11.2
1064	Longs Drug Stores	-28.0	32¾	2.87	3.5
578	Longview Fibre	32.1	16¾	1.39	3.1
133	Loral	169.2	39¾	3.69	1.5
604	Lotus Development	27.8	39¾	1.90	0.0
844	Louisiana Land	-0.3	44¼	0.76	2.3
250	Louisiana-Pacific	96.8	28¾	3.64	1.8
37	Lowe's Cos	440.7	39¾	1.70	0.5
30	LSI Logic	522.8	44¾	2.40	0.0
NR	LTV	NA	17	2.66	0.0
340	Lubrizol	73.3	32½	2.51	2.8
748	Lukens	11.8	28½	2.09	3.5
661	Lyondell Petrochem	22.1‡	26¼	3.62	3.4
452	M/A-COM	50.0	7½	0.29	0.0
396	Mac Frugal's Bargains	60.0	21	1.53	0.0
88	Magma Copper	239.0	17¾	1.72	0.0
330	MagneTek	75.8	14½	1.04	0.0
338	Mallinckrodt Group	74.8	30¾	2.42	1.8
149	Manor Care	151.9	28¾	1.72	0.3
275	Manpower	90.6	27¾	1.26	0.4
815	Manville	4.1	9½	0.50	0.0
576	Mapco	32.2	52¾	5.49	1.9
985	Marion Merrell Dow	-15.7	22¾	1.26	4.4

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
107	Mark IV Industries	199.2	21¾	1.60	0.5
NR	Marriott Intl	NA	28¾	1.71	1.0
873	Marsh & McLennan Cos	-3.4	75¾	5.73	3.8
1124	Marsh Supermarkets	-40.8	10½	1.16	4.2
329	Marshall & Ilsley	76.1	20¼	2.15	3.0
124	Marshall Industries	178.1	26¼	2.47	0.0
229	Martin Marietta	107.9	46½	4.62	2.1
886	Masco	-5.1	23¾	2.15	3.1
393	MascoTech	60.7	12¼	1.41	1.0
872	Matsushita Electric	-3.4	158½	4.59	0.8
91	Mattel	227.9	27¾	1.96	0.9
363	Maxicare Health	67.9†	16¾	0.97	0.0
1165	Maxtor	-52.9	4½	-0.23	0.0
1192	Maxus Energy	-63.6	4	-0.25	0.0
1053	Maxxam	-25.8	34¾	NA	0.0
418	May Dept Stores	56.1‡	37¾	3.49	2.8
NR	Mayflower Group	NA	10¼	NA	0.0
1047	Maytag	-24.4	14¾	1.53	3.4
213	MBNA	113.7†	25¾	2.21	2.8
767	McClatchy Newspapers	9.8	22½	1.56	1.5
451	McCormick & Co	50.5	19¾	1.50	2.5
768	McDermott Intl	9.7	25¾	1.47	3.9
346	McDonald's	72.5	29¾	1.90	0.8
183	McDonnell Douglas	132.7	142½	15.24	1.7
625	McGraw-Hill	25.6	71¼	4.59	3.3
849	MCI Communications	-0.6	21¾	1.62	0.2
102	McKesson	204.2	108¾	3.44	0.9
408	MCN	58.3	18½	1.50	4.8
82	MDC Holdings	254.5	47¾	NA	1.6
591	Mead	30.3	47¾	3.98	2.1
943	Media General	-10.4	28¾	1.59	1.6
1224	MedImmune	-88.9†	4¾	-1.06	0.0
99	Medtronic	214.7	51¾	2.84	0.8
316	Mellon Bank	79.5	34¼	4.47	5.3
1046	Melville	-24.1	33¾	3.57	4.5
1024	Mentor Graphics	-21.6	13¾	0.81	0.0
273	Mercantile Bancorp	91.1	33¾	2.13	3.4
761	Mercantile Stores	10.2	43¾	3.16	2.4
492	Merck	43.2	37	2.65	3.2
67	Mercury General	298.3	29¾	3.06	2.4
529	Meredith	38.4	48¼	2.13	1.5
479	Meridian Bancorp	45.5	28	3.30	4.9
460	Merisel	49.0	9½	1.13	0.0
103	Merrill Lynch	203.8	39¾	5.53	2.3
1212	Merry-Go-Round	-79.0	1¾	NA	0.0
292	Fred Meyer	83.8	34	3.13	0.0
658	Michael Foods	22.5	11½	0.95	1.8
18	Michaels Stores	768.3	44½	2.46	0.0
395	Michigan National	60.4	79¾	7.20	2.5
157	MicroAge	148.3	12	1.47	0.0
12	Micron Technology	935.3	40¾	5.74	0.5
25	Microsoft	568.5	64¾	2.28	0.0
22	Mid Atlantic Medical	602.4*	24	1.39	0.0
980	Midlantic	-14.7	26¾	3.45	2.5
1093	Midwest Resources	-35.0	13¼	1.35	8.8
615	Herman Miller	26.6	25	2.05	2.1
287	Millipore	86.4	49¾	3.17	1.2
1026	Mine Safety Appliances	-22.0	44¾	NA	2.3
570	Minn Mining & Mfg	32.8	52¾	3.64	3.3
913	Minnesota Power & Lt	-7.3	25¼	2.32	8.0
285	Mirage	87.2	20½	1.42	0.0
1019	Mitchell Energy	-20.6	17¾	0.90	2.8
559	Mobil	34.3	84¾	5.93	4.0
92	Modine Manufacturing	223.2	30½	2.26	1.7
NR	Mohawk Industries	NA	16¾	1.78	0.0
1150	Molecular Biosystems	-48.1	11¾	-0.47	0.0
139	Molex	163.5	33¾	1.42	0.1

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Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
NR	Monk-Austin	NA	14	1.28	1.3
605	Monsanto	27.6	73%	5.96	3.4
777	Montana Power	8.3	22%	2.12	7.0
1107	Moore Corp	-37.7	18	1.53	5.2
555	JP Morgan & Co	34.9	59%	7.46	4.6
1133	Morgan Products	-42.7	5%	NA	0.0
272	Morgan Stanley	91.5	61%	7.09	1.9
1087	Morrison Knudsen	-32.4	15%	0.90	5.1
177	Morrison Restaurants	134.5	27%	1.70	1.3
165	Morton International	142.5	29	1.85	1.5
62	Motorola	312.8	60%	3.02	0.7
85	Mueller Industries	248.5†	29%	5.74	0.0
920	Multimedia	-8.1	28%	2.21	0.0
775	Murphy Oil	8.5	44%	2.40	2.9
NR	Musicland Stores	NA	16	1.40	0.0
821	Nacco Industries	3.6	57½	5.34	1.2
588	Nalco Chemical	30.8	32%	2.10	3.0
1096	Nash Finch	-35.7	16	NA	4.5
1125	Nashua	-41.1	20%	2.26	3.5
538	National City	36.7	26%	2.97	4.5
NR	Natl Convenience	NA	7%	0.68	0.0
882	National Fuel Gas	-5.0	26½	2.32	6.0
799	National Health Labs	6.0†	13%	0.81	0.0
1056	National Medical	-26.5†	14%	1.45	0.0
150	Natl Semiconductor	151.7	18%	2.31	0.0
875	National Service	-4.0	26%	1.86	4.0
NR	National Steel	NA	16	4.31	0.0
97	National Western Life	216.3	34	NA	0.0
829	NationsBank	2.7	47½	6.88	4.2
1193	Navistar Intl	-64.8	13%	1.47	0.0
549	NBD Bancorp	35.4	28%	3.59	4.2
801	NCH	5.9	63	NA	1.9
919	NEC	-8.0	60%	1.40	0.8
932	Neiman Marcus Group	-9.3	14%	0.58	1.4
807	New England Electric	4.8	30%	3.20	7.6
1095	NY State E&G	-35.5	18%	2.36	7.5
933	New York Times	-9.4	24	1.30	2.3
256	Newell Co	95.5	21%	1.43	1.8
803	Newmont Mining	5.8	40%	1.14	1.2
220	News Corp	110.1	23%	1.97	0.4
918	Niagara Mohawk Power	-7.8	13%	1.70	8.5
846	Nicor	-0.5	22%	2.18	5.5
168	NIKE	140.8	64%	5.12	1.6
NR	Nine West Group	NA	26	2.17	0.0
501	NipSCO Industries	42.6	27%	2.55	5.2
1022	Nissan Motor	-21.5	16	0.31	0.9
1154	NL Industries	-49.2	12%	0.45	0.0
938	Noland	-10.1	20	NA	1.2
1213	NorAm Energy	-79.4	5%	0.50	5.0
182	Nordson	133.0	58%	3.05	1.1
596	Nordstrom	29.5	48%	2.80	0.8
442	Norfolk Southern	51.9	61½	5.38	3.1
NR	Norrell	NA	17%	1.20	1.4
224	Nortek	109.1	11½	NA	0.0
870	Northeast Utilities	-3.3	21%	2.23	8.1
750	No States Power	11.6	44%	3.38	5.9
458	Northern Telecom	49.2	34½	1.93	1.0
369	Northern Trust	66.4	34%	3.72	3.0
146	Northrop Grumman	157.1	45	4.95	3.6
NR	Northwest Airlines	NA	18%	2.98	0.0
NR	Northwestern Steel	NA	5%	0.47	0.0
236	Norwest	102.2	22%	2.81	3.7
706	NovaCare	16.7	9%	1.01	0.0
43	Novell	387.1	18%	1.14	0.0
73	Nucor	276.8	56%	3.55	0.3
446	NWNL Cos	51.3	29½	3.94	3.1
988	Nynex	-16.0	38%	3.27	6.1

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
28	Oakwood Homes	540.4	22%	1.83	0.4
1082	Occidental Petroleum	-31.2	20%	0.96	4.9
27	Office Depot	543.8	25%	0.88	0.0
NR	OfficeMax	NA	25%	NA	0.0
1097	Ogden	-35.7	20½	1.79	6.1
632	Ohio Casualty	24.9	29½	2.78	4.9
1036	Ohio Edison	-23.2	18%	1.96	8.2
991	Oklahoma G&E	-17.0	32%	2.99	8.2
349	Old Kent Financial	71.5	31%	3.63	3.9
320	Old Republic Intl	78.7	19%	2.53	2.4
928	Olin	-9.0	54%	5.14	4.0
110	Olsten	196.6	33%	2.02	0.7
230	Omnicom Group	107.8	53½	3.72	2.3
886	Oneida	-5.1	13%	1.80	3.5
758	Oneok	10.6	17%	1.36	6.4
71	Oracle Systems	277.5	44%	1.85	0.0
904	Orange & Rockland	-6.7	29%	3.25	8.6
614	Oregon Steel Mills	26.8	15%	1.22	3.6
201	Orion Capital	118.4	31%	4.16	2.5
144	OrNda HealthCorp	160.0*	14%	1.35	0.0
1201	Oryx Energy	-70.7	13	-0.09	0.0
706	Oshkosh Truck	16.7	11%	NA	4.4
1078	Overboard Marine	-30.8	18	1.87	2.2
832	Overseas Shipholding	2.2	23	0.97	2.6
60	Owens & Minor	320.2	15%	0.86	1.1
747	Owens-Corning	11.9	28%	4.03	0.0
889	Owens-Illinois	-5.2†	11%	1.37	0.0
204	Oxford Industries	116.8	27%	2.92	2.6
699	Paccar	17.7	43%	5.34	2.3
1184	Pacific Enterprises	-59.7	20%	1.90	6.3
842	Pacific G&E	0.6	22%	2.89	8.9
NR	Pacific Telesis	NA	28%	2.78	7.6
38	PacificCare Health	435.3	68%	3.59	0.0
1034	PacificCorp	-23.0	17%	1.50	6.1
247	PaineWebber Group	98.3	14%	2.07	3.2
388	Pall	62.0	18½	0.97	2.0
402	Pamida Holdings	58.8*	6%	0.88	0.0
1040	Panhandle Eastern	-23.4	22%	1.91	3.7
NR	Paragon Trade Brands	NA	21%	2.91	0.0
311	Parker Hannifin	79.7	45%	3.43	2.2
NR	Payless Cashways	NA	9	1.29	0.0
818	PECO Energy	3.8	24	2.62	6.8
198	Penn Traffic	120.8	39%	3.13	0.0
582	JC Penney	31.6	47%	4.62	3.5
961	Pennsylvania P&L	-12.5	18%	2.05	8.9
1137	Pennzoil	-45.4	48%	1.58	6.2
191	Pentair	123.6	41	2.93	1.8
435	People's Bank	53.2	11%	1.55	4.7
854	Peoples Energy	-1.5	25%	2.13	7.1
117	Pep Boys	186.3	34	1.60	0.5
347	PepsiCo	72.3	36%	2.40	2.0
1199	Perini	-69.4	10%	0.40	0.0
572	Perkin-Elmer	32.6	30	2.00	2.3
971	Perrigo	-13.4†	12%	0.80	0.0
986	Perry Drug Stores	-15.9	7½	0.82	0.0
1050	Pet	-24.9†	17%	1.19	2.0
652	Petrie Stores	22.8	26½	0.55	0.8
NR	Petroleum Heat & Pwr	NA	8½	1.85	6.5
197	Pfizer	120.9	76%	4.74	2.4
245	Phelps Dodge	98.7	58%	5.86	3.1
773	PHH	9.0	36%	4.55	3.5
444	Philip Morris Cos	51.4	63	6.22	5.2
627	Philips Electronics	25.0	31½	3.61	0.9
564	Phillips Petroleum	33.7	33%	1.97	3.3
257	Phillips-Van Heusen	95.3	15%	1.58	1.0
NR	Physician Corp Amer	NA	26	1.66	0.0
526	Piedmont Natural Gas	38.7	19½	1.49	5.3

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Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
1031	Pier 1 Imports	-22.8	7%	0.87	1.6
459	Pilgrim's Pride	49.1	10%	1.10	0.6
1018	Pinkerton's	-20.6*	17%	1.17	0.0
353	Pinnacle West	70.8	19	1.97	4.7
1099	Pioneer Electronic	-35.8	24½	0.54	1.0
1143	Pioneer Financial Svcs	-46.4	9¼	NA	1.6
207	Pioneer Hi-Bred Intl	116.2	32¼	2.31	2.1
39	Pioneer-Standard Elec	430.9	18%	1.83	0.6
491	Pitney Bowes	43.7	34½	2.74	3.0
NR	Pittston Minerals	NA	24%	2.95	2.7
680	Pittston Services	19.9	25%	2.14	0.8
NR	Pittway	NA	40	2.55	1.3
327	Ply Gem Industries	76.7	19%	2.01	0.6
824	PNC Bank	3.3	21½	3.36	6.5
1070	Polaroid	-29.0	32½	2.89	1.8
571	Policy Management Sys	32.7	45%	2.16	0.0
1091	Pope & Talbot	-33.8	17%	1.96	4.4
989	Portland General	-16.4	17%	1.84	6.7
826	Potlatch	3.1	37%	3.15	4.2
1017	Potomac Electric	-20.4	19	1.89	8.7
280	PPG Industries	89.3	37%	3.28	3.1
NR	Praxair	NA	21%	1.56	1.3
822	Precision Castparts	3.4	21%	1.71	1.1
113	Premark International	193.5	45%	3.84	1.8
68	Premier Bancorp	297.2	16¼	2.39	0.0
456	Premier Industrial	49.7	25%	1.43	1.6
514	Price/Costco	40.7	15%	1.14	0.0
305	Procter & Gamble	81.9	63%	3.68	2.2
118	Progressive	185.4	36%	3.06	0.6
33	Probus Cos	480.0*	29	1.82	0.0
108	Protective Life	198.3	43%	5.06	2.6
912	Provident Life & Acc	-7.3	23%	3.58	4.4
655	Providian	22.6	31%	4.07	2.5
817	Public Service Colo	3.8	27¼	2.53	7.3
993	Public Service NM	-17.1	12%	1.32	0.0
969	Pub Svc Enterprise	-13.2	25%	2.81	8.5
940	Puget Sound P&L	-10.2	19%	1.91	9.3
516	Pulitzer Publishing	40.0	37%	2.96	1.5
353	Pulte	70.8	19	2.50	1.3
716	Quaker Oats	15.8‡	33½	2.20	3.4
861	Quaker State	-2.6	14	1.05	2.9
476	Quality Food Centers	46.3	22½	1.56	0.9
396	Quanex	60.0	24	1.65	2.3
209	Quantum	115.5	15%	3.52	0.0
484	Questar	44.6	27%	2.28	4.1
NR	Quorum Health Group	NA	20%	1.12	0.0
141	QVC	162.5	43%	1.93	0.0
NR	Ralcorp Holdings	NA	21%	1.50	0.0
NR	Ralston-Continental	NA	4%	-0.33	0.0
837	Ralston-Purina	1.5‡	42½	2.81	2.8
765	Raychem	9.8	34%	1.91	0.9
NR	Rayonier	NA	29	2.98	2.5
281	Raytheon	89.2	65%	6.33	2.3
411	Reader's Digest Assn	56.8*	46¼	2.46	3.5
228	Reebok International	107.9	39½	3.44	0.8
743	Reliance Group	12.2	5%	0.86	5.6
1205	Repligen	-72.5	2%	-1.41	0.0
600	Republic New York	28.8	44½	6.14	3.0
706	Resorts Intl	16.7*	7%	NA	0.0
NR	Revco DS	NA	20¼	1.34	0.0
1227	Rexene	-91.1	12½	NA	0.0
66	Reynolds & Reynolds	300.0	24%	1.82	1.7
910	Reynolds Metals	-7.2	49%	2.75	2.0
651	Rhone-Poulenc	22.9	25½	1.37	1.7
348	Rhone-Poulenc Rorer	72.3	40%	3.19	2.8
69	Richfood Holdings	287.3	15%	1.37	0.7
1179	Riggs National	-58.2	8%	0.99	0.0

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
927	Riser Foods	-8.8	6½	1.20	0.0
513	Rite Aid	40.8	23½	1.84	2.6
NR	Riverwood Intl	NA	17%	1.21	0.9
1105	RJR Nabisco	-37.2†	6%	0.57	0.0
633	Roadway Services	24.9	52¼	3.61	2.7
1233	Robertson-Ceco	-98.0	3%	NA	0.0
860	Rochester G&E	-2.3	21	2.31	8.4
724	Rochester Telephone	14.2	23½	1.55	3.5
NR	Rock-Tenn	NA	15%	1.35	1.9
461	Rockwell Intl	48.9	35%	3.15	3.1
382	Rohm & Haas	62.6	56½	4.36	2.6
1170	Rohr	-54.0	9%	0.49	0.0
265	Rollins	93.9	23¾	1.59	2.1
1231	Rose's Stores	-95.9	¼	NA	0.0
891	Ross Stores	-5.3	13½	1.45	1.5
NR	Rouge Steel	NA	25%	5.90	0.3
1081	Rouse	-31.1	18¼	NA	3.7
509	Royal Dutch Petroleum	41.6	109¾	7.66	4.4
282	RPM	88.7	19%	1.19	2.9
430	Rubbermaid	53.7	28¼	1.63	1.8
553	Ruddick	35.1	19½	1.60	2.2
694	Russell	18.2	30%	2.31	1.6
742	Ryder System	12.3‡	22%	2.25	2.6
956	Rykooff-Sexton	-11.3	20%	1.80	0.0
1021	Ryland Group	-21.2	14%	2.14	4.0
1229	Saatchi & Saatchi	-94.1	7½	0.44	0.0
624	Safeco	25.6	48½	5.84	4.0
148	Safeguard Scientifics	153.2	17¼	1.60	0.0
1102	Safety-Kleen	-36.1	13	1.00	2.8
152	Safeway	151.0*	30%	2.26	0.0
205	St Joe Paper	116.2*	60	1.75	0.3
500	St Paul Cos	42.6	42½	4.99	3.6
1176	Salant	-57.4	5	0.90	0.0
1076	Sallie Mae	-30.5	33%	4.81	4.4
383	Salomon	62.6	38	4.55	1.7
975	San Diego G&E	-14.1	19%	1.90	7.8
1130	Santa Fe Energy Res	-41.9*	9	0.24	0.0
NR	Santa Fe Pacific	NA	16%	1.10	0.6
982	Sanyo Electric	-15.0	28%	NA	0.9
452	Sara Lee	50.0	25%	1.61	2.7
1183	Savannah Foods	-59.1	11¼	0.50	4.8
714	Scana	16.1	41½	3.68	6.8
1079	SCEcorp	-30.8	13%	1.58	7.3
337	Schering-Plough	74.9	74%	5.39	2.7
735	Schlumberger	13.0	55½	2.76	2.2
NR	Scholastic	NA	46½	2.69	0.0
193	A Schulman	122.3	28%	1.44	1.1
734	Schultz Sav-O Stores	13.0	19%	2.25	1.2
35	Charles Schwab	447.3	33%	2.54	0.8
214	SCI Systems	113.0	18%	1.53	0.0
123	Scientific-Atlanta	181.0	22¼	0.86	0.3
960	Scios Nova	-12.3	6¼	-1.04	0.0
519	Scott Paper	39.5	67%	4.59	1.2
NR	Scotts	NA	15%	1.45	0.0
627	EW Scripps	25.0	30	1.70	1.5
481	Seaboard	44.9	168%	NA	0.6
359	Seagate Technology	68.3	25¼	3.41	0.0
618	Seagram	26.2	28%	2.66	2.1
86	Sealed Air	247.2	35%	2.18	0.0
580	Sears, Roebuck	31.8‡	50¼	5.39	3.2
1181	Seaway Food Town	-58.7	9½	NA	3.8
599	Selective Insurance	28.9	24½	3.22	4.6
52	Sensormatic Electron	346.8	35%	1.44	0.6
1109	Sepracor	-38.2†	5¼	-0.50	0.0
1197	Sequa	-66.6	24%	2.50	0.0
153	Service Corp Intl	150.8	26%	1.72	1.6
678	Service Merchandise	20.0	6	0.89	0.0

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Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
170	Shared Medical Sys	139.3	30%	1.69	2.7
246	Shaw Industries	98.4	15%	1.20	1.4
926	Shawmut National	-8.6	18½	3.03	4.3
289	Sherwin-Williams	85.4	31%	2.38	1.8
678	Shoney's	20.0	14¼	1.63	0.0
1028	ShopKo Stores	-22.3†	10	1.26	4.4
674	Sigma-Aldrich	20.3	34¾	2.43	1.0
249	Signet Banking	97.7	31¾	4.14	3.1
53	Silicon Graphics	342.7	32¾	1.21	0.0
1169	Sizzler Intl	-53.9†	5½	NA	2.7
1077	SKF Group	-30.6	18½	NA	0.0
601	Skyline	28.8	19	NA	2.5
722	Smart & Final	14.5†	14½	1.04	1.4
75	AO Smith	267.3	25¼	3.11	2.1
50	Smithfield Foods	349.0	27½	2.12	0.0
536	SmithKline Beecham	37.1	33½	2.55	3.6
753	Smith's Food & Drug	11.5	26¾	1.78	1.9
612	JM Smucker	26.9	23½	1.48	2.2
845	Snap-on	-0.4	32¾	2.67	3.3
NR	Snapple Beverage	NA	13¾	0.71	0.0
4	Soletron	1404.9	27¾	1.53	0.0
697	Sonat	17.9	28¾	2.15	3.8
676	Sonoco Products	20.3	22¼	1.58	2.5
794	Sony	6.4	58½	1.66	0.9
1131	Southdown	-42.5	15%	1.91	0.0
562	Southern Co	33.9	19½	1.67	6.1
1057	So New Eng Telecom	-26.5	33	2.83	5.3
NR	Southern Pacific Rail	NA	19¾	1.32	0.0
130	Southland	170.0†	5½	0.15	0.0
297	SouthTrust	83.0	18½	2.37	3.7
63	Southwest Airlines	312.5	22	1.72	0.2
978	Southwest Gas	-14.5	14¾	1.19	5.6
579	Southwestern Bell	31.9	42½	3.03	3.8
1152	Southwestern Life	-48.9	3	0.40	0.0
979	Southwestern Pub Svc	-14.5	25¾	2.38	8.5
485	Spiegel	44.4	14¾	1.03	1.4
830	Springs Industries	2.6	39¼	3.54	3.1
990	Sprint	-16.4	31¾	2.75	3.1
1111	SPS Technologies	-38.6	25½	2.75	0.0
1118	SPX	-40.0	17¼	1.72	2.3
808	Std Commercial	4.8	13¾	1.73	0.0
138	Standard Fedl Bank	164.5	25½	4.09	2.5
672	Standard Motor Prods	20.7	18¼	1.90	1.8
609	Standard Products	27.1	22½	2.46	3.0
788	Standard Register	7.1	17	1.78	4.0
131	Standex International	169.8	31¾	NA	2.0
646	Stanhome	23.2	31¾	2.81	3.3
850	Stanley Works	-0.6	38¾	3.15	3.6
58	Staples	323.6	22¾	0.80	0.0
385	State Street Boston	62.4	31¾	3.00	1.9
392	Stepan	60.8	15¾	NA	2.9
463	Sterling Chemicals	48.4	11½	1.25	0.0
163	Stewart & Stevenson	145.0	34	2.50	0.8
1085	Stone Container	-32.2	15%	1.17	0.0
331	Stop & Shop Cos	75.7†	24%	1.85	0.0
167	Storage Technology	141.5	28¾	3.05	0.0
384	Stratus Computer	62.5	37¾	3.24	0.0
1014	Strawbridge	-20.3	22½	2.38	4.9
962	Stride Rite	-12.6	12¾	0.80	3.0
111	Stryker	196.0	36%	1.77	0.2
1058	Sun Co	-26.6	30	2.09	6.0
262	Sun Microsystems	94.9	33¾	2.58	0.0
695	Sun TV & Appliances	18.0†	9	1.08	0.4
96	SunAmerica	218.1	37¾	4.39	1.6
NR	Sunbeam-Oster	NA	24¼	1.54	0.2
530	Sundstrand	38.0	44¾	3.36	2.7
210	SunTrust Banks	115.3	49¼	4.84	2.9

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
1140	Super Food Services	-46.0	10%	1.01	3.5
987	Supervalu	-15.9	24¾	2.72	3.9
1098	Synergen	-35.8	5%	-1.75	0.0
365	Sysco	67.6	26½	1.40	1.4
1148	T Cell Sciences	-47.5	2%	-0.37	0.0
NR	Talbots	NA	34¾	1.81	0.6
1007	Talley Industries	-18.6	8¾	NA	0.0
689	Tambrands	18.9	41%	2.58	4.2
1048	Tandem Computers	-24.5	17%	1.66	0.0
764	Tandy	9.9	43	3.41	1.4
350	TBC	71.5	9%	0.89	0.0
128	TCF Financial	171.3	36%	5.01	2.7
17	Tech Data	822.3	17%	1.30	0.0
609	TECO Energy	27.1	18¾	1.51	5.4
643	Tecumseh Products	23.7	41¾	5.21	3.6
180	Tejas Gas	133.6	44	2.95	0.0
218	Tektronix	111.2	37¾	2.79	1.6
589	Tele-Communications	30.8	23¾	0.22	0.0
684	Teledyne	19.5*	17%	1.72	0.0
335	Teleflex	75.1	36%	2.73	1.5
855	Tele & Data Systems	-1.6	45%	1.25	0.8
551	Temple-Inland	35.3	47	4.15	2.3
1090	Tenneco	-33.5	41%	4.22	3.9
114	Teradyne	192.0	32½	2.27	0.0
1161	Terex	-51.7	8½	0.50	0.0
424	Terra Industries	55.1	9½	1.36	0.8
864	Tesoro Petroleum	-2.7	9	1.73	0.0
810	Texaco	4.7	61¾	4.24	5.2
440	Texas Industries	52.3	33½	4.32	0.6
208	Texas Instruments	116.0	77½	8.52	1.3
937	Texas Utilities	-10.0	31%	2.89	9.7
232	Textron	104.1	50¼	5.32	2.8
188	Thermo Electron	126.5	46¼	2.44	0.0
252	Thiokol	96.2	25¾	3.03	2.6
534	Thomas & Betts	37.3	68½	4.06	3.3
1074	Thomas Industries	-29.6	14¾	NA	2.8
16	Thorn Apple Valley	832.2	29	2.80	1.0
31	3Com	520.0	42%	2.15	0.0
421	Tidewater	55.7	22¾	1.22	1.8
908	Tiffany	-7.0	43½	2.25	0.6
NR	TIG Holdings	NA	18	1.98	1.1
703	Time Warner	16.9	35¼	0.04	1.0
955	Times Mirror	-11.2	31¾	1.26	3.4
676	Timken	20.3	33¾	2.93	3.0
525	TJ International	38.8	17	1.28	1.3
841	TJX Cos	0.8	15½	1.59	3.6
NR	TNT Freightways	NA	24¼	1.88	1.5
877	Torchmark	-4.1	35%	4.50	3.1
816	Toro	4.0	26¼	2.59	1.8
565	Tosco	33.5	30¾	3.35	2.1
469	Toyota Motor	47.2	42¾	0.77	0.9
400	Toys 'R' Us	58.9	38	2.28	0.0
1172	Trans World Entertain	-55.0	11¼	1.33	0.0
731	Transamerica	13.3	50%	5.72	4.0
261	Transatlantic Holding	95.0*	53¾	4.88	0.7
1206	Transco Energy	-72.7	13¾	1.23	4.6
178	Travelers	134.2	33¾	4.51	1.8
725	Tredegar Industries	14.2	18½	1.50	1.3
804	Triarc Cos	5.2	12¾	0.88	0.0
759	Tribune	10.6	52¾	3.47	2.0
NR	Trident NGL Holding	NA	11	0.56	0.5
358	Trinity Industries	68.8	33¾	3.15	2.0
636	Trinova	24.5	30½	2.98	2.2
528	TRW	38.5	68¾	5.78	2.9
1216	Tucson Electric	-80.6	3½	0.14	0.0
1136	Tultex	-45.0	5½	0.44	0.0
1134	Turner	-44.0	7%	NA	0.0

Note: Except as indicated, price changes are from Dec. 31, 1989 to Nov. 16, 1994. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available.

Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
838	Turner Broadcasting	1.5	17¼	0.40	0.4
825	20th Century Inds	3.3	11½	1.25	0.0
916	Tyco International	-7.4	46%	3.25	0.9
1144	Tyco Toys	-46.9	5%	0.39	0.0
304	Tyson Foods	81.9	22%	1.57	0.4
1204	UAL	-72.3†	94¼	8.01	0.0
779	UGI	8.1	20¼	1.44	6.7
573	UJB Financial	32.5	25	3.09	4.2
NR	Ultramar	NA	24½	3.12	4.4
787	UNC	7.1	5%	0.59	0.0
1117	Unicom	-39.2	22%	2.51	7.0
79	Unifi	259.1	25%	1.54	1.6
541	Unilever NV	36.0	115¼	9.42	2.8
648	Union Bank	23.0	28¼	3.38	4.9
634	Union Camp	24.7	46	3.20	3.4
NR	Union Carbide	NA	30%	2.81	2.4
653	Union Electric	22.7	35½	2.94	6.9
638	Union Pacific	24.3	47%	4.65	3.6
782	Union Texas Petrol	7.6	19½	0.89	1.0
1069	Unisys	-28.8	10½	1.09	0.0
3	United HealthCare	1577.9	50%	2.30	0.1
977	United Illuminating	-14.2	29%	3.40	9.4
554	US Bancorp	35.0	23½	3.00	4.3
607	US Bioscience	27.3	7%	-0.36	0.0
9	US Healthcare	1061.5†	47¼	2.84	1.8
1001	US Home	-17.9	16	2.96	0.0
936	US Shoe	-9.9	18½	1.54	1.8
379	US Surgical	63.5	22%	0.77	0.4
1106	United Stationers	-37.5	10	0.98	4.0
763	United Technologies	9.9	59%	5.55	3.4
494	Unitrin	43.1*	44	3.10	3.6
856	Univar	-1.9	13½	1.03	2.3
603	Universal	28.2†	22¼	1.55	4.2
701	Universal Foods	17.3	28	2.34	3.4
NR	Universal Forest Prod	NA	6¼	0.70	0.7
116	Universal Health	186.5	26½	2.26	0.0
924	Unocal	-8.4	27¼	1.52	2.9
415	UNUM	56.3	37½	4.38	2.6
973	Upjohn	-14.0	33½	2.57	4.5
939	US West	-10.1	36	2.97	5.9
1222	USAir Group	-87.6	4%	-4.25	0.0
1156	USF&G	-50.0	14½	1.36	1.4
NR	USG	NA	21¼	3.36	0.0
968	Uslico	-13.2	20½	1.79	1.2
785	USLife	7.5	32¼	4.59	4.1
308	UST Inc	81.2	27¼	2.13	4.0
NR	USX-Delhi	NA	12%	0.63	1.6
1049	USX-Marathon	-24.5†	18½	0.94	3.7
602	USX-US Steel	28.3†	35½	5.06	2.8
709	UtiliCorp United	16.5	25%	2.21	6.7
NR	Valassis Commun	NA	14%	0.71	0.0
535	Valero Energy	37.2	20¼	1.53	2.5
1182	Valhi	-58.9	7½	NA	1.1
958	Valmont Industries	-12.0	16½	1.42	1.8
278	Valspar	90.2†	34	2.18	1.5
1123	Value City Dept Stores	-40.3†	11½	1.29	0.0
234	Value Health	103.1†	38¼	1.79	0.0
90	Varian Associates	232.9	36	2.58	0.7
443	Variety	51.5	37%	3.29	0.0
313	Venture Stores	79.7*	14%	2.24	4.0
878	Vertex Pharmaceutical	-4.2†	14%	-1.45	0.0
396	VF	60.0	51	4.63	2.7
504	Viacom	42.2	40%	0.50	0.0
866	Vicorp Restaurants	-2.9	16%	1.08	0.0
592	Vigoro	30.2†	28	2.78	3.0
11	Viking Office Prods	957.8*	30¼	1.00	0.0
1138	Village Super Market	-45.8	8	NA	0.0

Rank	Company	5-year price change %	Recent price	EPS 1995 estimate \$	Current yield %
70	Vishay Intertech	281.9	50%	3.14	0.0
342	VLSI Tech	72.9	12¼	1.26	0.0
195	Volt Info Sciences	121.6	28¼	NA	0.0
560	Volvo	34.3	19%	3.56	1.0
805	Vons Cos	5.1	20½	1.48	0.0
778	Vulcan Materials	8.1	48%	3.81	2.7
760	VWR	10.4	9¼	0.60	4.3
482	Waban	44.8	17%	1.85	0.0
399	Wachovia	59.6	32%	3.42	4.0
721	Wackenhut	14.9	14	NA	2.6
227	Wal-Mart Stores	108.4	23%	1.45	0.7
314	Walgreen	79.7	42	2.53	1.9
970	Wallace Computer Svcs	-13.3	27	2.34	2.7
NR	Wang Laboratories	NA	11%	0.31	0.0
490	Warnaco Group	43.7†	17½	1.59	0.0
546	Warner-Lambert	35.7	78%	5.55	3.1
800	Washington Gas Light	6.0	33%	2.80	6.7
221	Washington Mutual	109.9	17%	2.83	4.4
1042	Washington National	-23.8	21¼	2.69	5.1
959	Washington Post	-12.3	247	14.22	1.7
593	Watts Industries	30.2	24	1.57	0.9
235	Del Webb	103.0	17	1.75	1.2
1029	Weirton Steel	-22.5	8%	1.82	0.0
999	Weis Markets	-17.9	24%	1.75	3.1
1043	Wellman	-23.8	26%	2.25	0.9
NR	WellPoint Health	NA	29%	2.42	0.0
263	Wells Fargo	94.8	144%	16.83	2.8
95	Wendy's Intl	218.9	14¼	1.07	1.6
NR	Western Atlas	NA	45¼	1.93	0.0
225	Western Digital	109.0	17½	2.78	0.0
401	Western Gas Resources	58.9	21¼	1.01	0.9
NR	Western National	NA	11¼	1.74	1.4
1113	Western Publishing	-38.9	12	0.90	0.0
733	Western Resources	13.1	28	2.64	7.1
1191	Westinghouse	-63.2	13%	0.81	1.5
1215	Westmoreland Coal	-79.7	4%	-0.13	0.0
NR	WestPoint Stevens	NA	15	1.52	0.0
756	Westvaco	11.2	33%	2.43	3.3
545	Weyerhaeuser	35.7	37½	4.04	3.2
403	Whirlpool	58.7	52%	4.94	2.3
663	Whitman	21.5†	16¼	1.31	2.1
237	WHX	101.8†	14%	2.90	0.0
NR	Wickes Lumber	NA	16	2.68	0.0
783	Wicor	7.5	26%	2.40	6.0
409	Willamette Inds	58.2	43½	4.46	2.2
NR	Willcox & Gibbs	NA	6%	0.65	0.0
468	Williams Cos	47.6	28½	2.22	2.9
381	Winn-Dixie Stores	62.7	52%	3.24	3.0
325	Winnebago Industries	77.5	8%	0.90	0.0
719	Wisconsin Energy	15.4	24%	2.07	5.7
496	Witco	42.9	27½	2.26	4.1
437	WLR Foods	53.0	25½	2.09	1.3
1008	WMX Technologies	-18.9	28%	1.87	2.1
1166	Woolworth	-53.0	15	1.46	4.0
212	Worthington Inds	114.0	21%	1.32	1.8
741	WPL Holdings	12.3	27%	2.34	7.0
1218	WPP Group	-83.0	3%	0.24	1.1
745	WPS Resources	12.1	26%	2.44	6.8
147	Wm Wrigley Jr	155.9	45%	1.99	2.2
371	Wyle Laboratories	65.9	18%	1.95	1.5
307	Xerox	81.4	103%	7.93	2.9
1073	Yellow	-29.4	18%	1.69	5.0
472	York International	46.9†	38	2.80	0.4
NR	Younkers	NA	18¼	1.80	0.0
840	Zenith Electronics	1.0	12%	0.01	0.0
637	Zenith National Ins	24.3	22%	2.28	4.5
1174	Zurn Industries	-56.7	17½	1.36	5.0

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Sources: Forbes; Wilshire Associates; Market Guide & IBES, Inc. via OneSource Information Services.

Who's where in the industry groups

With plans to socialize health care dead, the health firms should continue to perform at the top of our profitability charts.

By Eric S. Hardy

The table below ranks the 21 industry groups in our Annual Report on American Industry by five-year average annual return on equity.

The health care industry topped the list, with a five-year average return of 17.3% and 17.9% in the latest 12 months. With White House plans to socialize health care all but dead, this sector should continue to do well.

The chemicals, capital goods, computers and communi-

cations and consumer durables industries all improved sharply in 1994. Particularly impressive: consumer durables, which chalked up a 15.2% return in the period, compared with an 8.4% average return over five years.

Nine industries fell below their five-year averages, but in most cases the differences were minor. An exception: food distributors, which dropped from a five-year return of 12.1% to 8.6% for the last 12 months. Why? See page 170.

Industry (number of companies)	Profitability					Growth					Sales	Net income	Profit margin	
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales			Earnings per share						
	rank	5-year average %			latest 12 mos %	rank	5-year average %	latest 12 mos %	rank	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Health (74)	1	17.3	17.9	13.4	24.2	1	12.7	8.1	1	9.5	16.5	1,921	72	5.8
Drugs (22)		22.8	20.5	16.2	16.5		12.7	8.1		14.3	14.3	6,274	403	8.3
Health care services (32)		18.6	17.6	11.0	32.1		23.6	13.0		10.8	22.3	1,237	51	4.0
Medical supplies (20)		14.9	14.8	12.5	24.2		9.5	3.1		-5.4	6.0	970	69	6.2
Consumer nondurables (58)	2	16.9	16.1	11.5	26.5	4	8.0	5.2	7	-11.5	3.0	1,136	51	5.0
Personal products (23)		16.9	19.0	14.2	21.6		7.8	5.1		-14.3	7.7	1,224	59	6.4
Apparel & shoes (20)		17.8	16.1	12.0	24.6		10.2	8.5		11.1	8.9	742	45	5.3
Textiles (9)		9.2	11.5	8.4	38.0		3.9	4.0		NM	-26.9	1,060	25	3.6
Photography & toys (6)		14.8	12.0	8.4	32.7		11.7	2.3		NM	-14.9	2,481	137	4.2
Food drink & tobacco (69)	3	15.9	14.1	10.6	38.1	7	6.4	4.3	6	-8.7	1.7	1,644	61	3.3
Food processors (47)		15.4	15.1	11.0	38.1		5.5	5.0		-4.7	3.3	1,574	47	3.1
Beverages (12)		17.1	21.1	12.4	39.9		7.9	7.0		NM	12.8	2,138	95	7.4
Tobacco (10)		18.4	2.6	4.1	37.3		6.3	-1.3		NM	-37.8	2,049	101	1.9
Financial services (99)	4	14.5	16.0	12.3	33.1	16	3.8	4.4	3	6.8	12.0	1,837	232	13.2
Multinational banks (9)		10.2	16.0	10.2	44.2		-2.4	2.9		NM	7.7	11,599	1,289	11.7
Regional banks (53)		14.0	16.0	13.7	25.5		3.5	5.7		5.4	13.4	1,403	223	14.9
Thrift institutions (14)		6.0	12.1	8.5	12.5		-7.1	-0.2		NM	1.7	724	61	8.5
Brokerage & commodity (10)		22.4	18.4	10.2	57.2		14.1	6.3		29.8	-22.3	3,740	189	8.0
Lease & finance (13)		20.1	20.6	8.3	72.9		9.6	12.4		17.9	23.2	2,827	350	11.7
Insurance (80)	5	14.2	12.1	10.9	19.8	8	6.2	3.9	2	7.7	5.1	1,480	100	6.9
Oversified (12)		13.4	8.1	7.7	16.0		5.5	1.1		1.2	-5.0	2,644	90	5.0
Life & health (30)		14.7	13.5	12.4	23.3		6.8	4.3		10.4	14.3	1,460	145	8.6
Property & casualty (35)		13.7	11.9	10.2	20.0		6.2	6.0		8.3	2.8	1,500	75	6.5
Brokerage (3)		23.9	19.4	18.8	22.3		6.6	0.1		1.7	0.0	1,338	40	6.9
Retailing (119)	6	12.8	11.8	9.3	32.6	2	12.1	8.5	8	-13.5	9.4	1,347	28	1.9
Department stores (11)		11.6	9.5	7.6	42.7		4.0	2.9		0.4	18.1	2,779	101	3.0
Apparel (21)		14.5	11.4	9.5	19.8		12.2	6.9		-16.3	-15.1	1,284	25	2.7
Consumer electronics (10)		13.0	13.5	11.8	10.6		32.2	32.1		-7.7	26.3	2,152	17	1.2
Drug & discount (31)		12.8	12.6	9.7	42.0		7.6	7.1		NM	0.0	1,819	30	1.6
Home improvement (*)		8.6	13.9	8.5	43.5		12.6	13.8		-13.5	21.1	2,713	31	1.5
Home shopping (10)		17.9	21.4	14.5	2.6		11.5	14.9		NM	16.4	1,041	44	3.8
Specialty retailers (29)		9.6	7.2	8.4	29.9		14.5	11.1		-26.6	8.0	906	20	1.9
Aerospace & defense (37)	7	12.7	11.3	10.2	37.3	21	-3.0	-0.8	11	-20.8	10.3	1,493	51	3.4
Entertainment & information (47)	8	12.2	14.8	13.2	28.0	9	5.3	7.0	15	NM	15.2	1,680	88	6.8
Broadcasting & cable (10)		def	3.7	9.3	59.0		8.1	10.7		NM	-11.1	1,936	79	5.5
Movies (4)		16.5	9.8	8.9	45.6		11.7	3.6		NM	-26.8	4,077	22	2.6
Publishing (27)		12.2	15.4	13.3	25.4		3.4	5.0		-15.7	30.8	1,559	149	7.7
Advertising (6)		16.3	15.7	15.7	32.1		10.3	7.5		NM	1.0	1,747	21	2.8

D-P: Oeficit to profit. def: Deficit. NM: Not meaningful. For further explanation, see page 125.

Industry (number of companies)	Profitability					Growth					Sales	Net income	Profit margin	
	Return on equity			Return on capital latest 12 mos %	Debt/capital %	Sales			Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %	
	rank	5-year average %	latest 12 mos %			rank	5-year average %	latest 12 mos %	rank	5-year average %				latest 12 mos %
Food distributors (52)	9	12.1	8.6	8.1	41.5	12	4.5	3.2	5	-4.1	10.7	1,313	24	1.2
Supermarkets & convenience (32)		11.9	8.4	7.8	50.9		3.5	0.9		-11.8	7.1	1,699	24	1.2
Food wholesalers (7)		10.1	8.7	7.7	32.0		4.1	5.1		-10.9	3.1	2,810	17	0.8
Restaurant chains (13)		13.8	14.7	12.5	20.1		5.8	5.2		11.6	18.7	1,053	59	5.3
Chemicals (57)	10	12.1	15.5	11.3	29.3	19	3.4	6.1	13	-29.6	14.8	1,381	54	5.5
Diversified (14)		8.0	15.5	12.6	31.6		0.2	3.5		-24.3	24.1	4,273	242	5.9
Specialized (43)		13.1	15.5	11.2	26.6		5.9	7.5		-35.1	14.8	1,049	52	4.9
Business services & supplies (69)	11	11.9	14.0	11.2	30.2	6	6.8	9.9	9	-15.5	15.8	984	47	3.3
Business services (25)		13.1	14.6	14.1	26.5		8.8	13.0		-13.9	20.4	1,217	53	2.8
Business supplies (28)		11.3	12.8	11.1	28.8		5.8	6.7		-8.7	15.8	783	43	3.7
Industrial services (9)		8.6	15.1	10.2	38.3		9.5	4.9		NM	14.5	1,113	55	3.3
Environmental & waste (7)		4.8	0.2	0.4	48.3		9.4	9.8		NM	-93.5	796	0	0.1
Electric utilities (77)	12	11.5	11.7	6.2	37.3	18	3.5	3.3	4	-4.0	-0.8	1,769	147	9.8
Northeast (23)		11.1	10.4	6.0	37.3		5.3	4.6		-2.9	-3.5	1,926	166	9.4
North central (25)		11.8	11.9	6.5	37.3		2.6	2.6		-6.0	-0.8	1,605	93	9.7
Southeast (10)		12.9	12.4	6.9	35.5		3.1	3.5		1.8	-1.0	2,793	266	11.9
South central (7)		10.5	9.6	5.3	38.6		4.6	3.9		-4.0	-10.5	3,672	283	8.4
Western (12)		9.7	11.2	6.0	37.4		3.7	3.1		NM	7.0	1,483	131	9.2
Capital goods (66)	13	10.8	13.0	10.2	29.8	11	5.2	8.4	15	NM	17.6	1,138	43	4.3
Electrical equipment (15)		13.9	12.7	9.6	36.2		3.8	5.3		-27.6	9.9	1,128	58	4.4
Heavy equipment (15)		8.5	16.2	11.3	41.5		4.9	15.4		-26.0	95.6	1,746	74	4.6
Other industrial equipment (36)		11.4	12.5	10.0	25.5		6.5	8.7		NM	17.3	1,055	35	3.8
Travel (24)	14	10.7	8.3	6.5	53.8	5	7.6	7.8	15	NM	18.8	1,473	87	3.0
Airlines (11)		def	1.0	4.1	70.4		9.8	7.9		NM	66.7	7,118	7	0.7
Hotels & gaming (13)		13.4	10.9	8.1	46.5		7.0	7.7		-4.5	16.4	1,223	95	7.7
Computers & communications (101)	15	10.2	13.7	10.7	19.6	3	12.0	15.2	15	NM	31.1	1,629	101	5.5
Major systems (25)		5.6	9.9	8.5	10.6		6.1	13.1		NM	36.6	2,108	83	3.4
Peripherals & equipment (41)		13.7	18.2	15.3	17.6		15.3	24.2		7.8	51.6	1,387	79	5.5
Software (11)		16.2	6.6	7.0	1.2		17.7	7.9		NM	9.7	641	28	5.9
Telecommunications (24)		9.6	11.5	8.6	33.5		8.2	8.8		-7.9	5.9	6,582	189	7.6
Transport (30)	16	10.1	12.8	8.2	36.2	10	5.3	9.4	10	-15.5	27.6	1,843	65	3.1
Railroads (11)		8.4	19.9	8.6	34.8		0.6	5.8		NM	30.5	3,657	206	7.9
Trucking & shipping (14)		10.9	7.0	6.7	36.7		5.7	11.2		-16.2	5.7	1,082	26	1.5
Air freight (5)		10.1	12.7	10.2	44.3		8.0	15.9		-8.8	40.2	1,777	43	2.7
Energy (87)	17	9.1	8.9	6.6	39.6	13	4.5	1.1	12	-23.4	0.9	1,581	55	2.8
International oils (7)		10.6	9.1	7.3	18.3		4.5	0.0		-12.7	-9.4	54,924	1,585	3.2
Other energy (37)		5.1	5.6	5.2	43.0		2.4	-1.4		NM	-44.3	1,557	30	1.9
Oilfield services (7)		6.0	7.9	6.6	23.6		7.2	2.0		NM	150.0	2,505	45	5.2
Gas producers & pipeliners (11)		10.6	10.3	6.5	43.1		4.3	-0.3		10.5	-7.2	1,869	88	2.7
Gas distributors (14)		10.9	11.7	7.5	41.6		4.7	3.9		0.1	6.6	1,174	49	5.3
Integrated gas (11)		9.6	9.6	6.1	38.6		5.0	0.0		-2.0	14.0	1,398	70	5.0
Consumer durables (80)	18	8.4	15.2	11.6	31.7	14	3.9	11.3	15	NM	30.4	1,769	54	3.4
Automobiles & trucks (10)		4.9	11.3	6.7	44.4		2.3	13.1		NM	58.4	54,434	241	1.6
Automotive parts (32)		9.9	16.6	12.8	27.6		3.7	12.0		-20.5	30.6	1,417	59	4.3
Appliances (13)		4.1	10.0	6.6	38.1		4.4	6.0		NM	35.9	5,181	102	2.2
Home furnishings (16)		10.1	14.0	9.6	29.2		4.9	8.3		-6.6	14.7	1,238	38	3.5
Recreation equipment (9)		7.7	15.2	12.8	24.0		5.3	17.7		NM	13.1	713	34	3.4
Forest products & packaging (37)	19	7.1	5.6	4.7	41.6	15	3.8	5.2	15	NM	13.2	1,426	32	2.6
Paper & lumber (20)		6.4	6.8	5.4	42.6		2.4	4.6		-33.0	16.1	1,959	42	2.6
Packaging (17)		9.2	4.6	4.5	41.3		5.0	6.0		NM	12.5	1,194	29	2.9
Construction (46)	20	5.9	8.4	6.2	39.1	17	3.7	10.4	14	-31.8	24.1	748	18	2.5
Commercial builders (12)		7.0	2.3	4.7	29.9		5.8	2.3		NM	-34.8	1,054	4	0.5
Residential builders (13)		10.5	11.7	8.3	43.4		7.7	26.4		NM	52.1	766	31	3.4
Cement & gypsum (7)		4.6	7.2	6.0	30.8		-2.9	9.7		-32.3	D-P	1,186	34	4.2
Other materials (14)		2.9	4.9	7.9	42.9		-2.7	7.0		-26.8	26.2	645	11	1.9
Metals (44)	21	4.6	6.7	7.3	34.0	20	-2.4	7.8	15	NM	27.4	1,300	19	1.9
Steel (27)		4.6	10.7	9.2	35.2		-2.6	11.6		NM	65.1	897	17	2.2
Nonferrous metals (17)		4.3	2.6	4.6	32.0		-1.8	6.0		NM	-16.3	2,232	23	1.8
All-industry medians		11.4	12.6	9.4	32.8		5.5	6.3		-18.8	11.8	1,449	60	4.3

D-P: Deficit to profit. def: Deficit. NM: Not meaningful. For further explanation, see page 125.

Who's where in this issue

This table shows growth, profitability and stock market ranks, along with corresponding page numbers, for each of the 1,340 U.S. and 30 foreign companies tracked in this survey.

Rank				
Company	Earnings growth	Stock market	Profitability	Page
AAR	630	1196	945	128
Abbott Laboratories	201	277	24	180
Abex	**	**	**	126
ABM Industries	329	647	486	128
Acme Metals	NM	922	1008	188
Actava Group	NM	1189	1149	149
ACX Technologies	**	**	**	178
Adams Res & Energy	585	145	84	158
Adia Services	NM	489	809	128
Advanced Micro	NM	101	242	138
ADVO	NM	154	316	162
Aetna Life & Cas	NM	1011	1046	184
Aflac	138	173	204	184
AGCO	**	**	**	131
HF Ahmanson	NM	931	1000	164
Air & Water Tech	NM	1198	1119	128
Air Express Intl	158	56	89	194
Air Prods & Chems	NM	269	562	134
Airborne Freight	NM	786	787	194
Airgas	NM	46	491	134
AirTouch Commun	**	**	994	138
AK Steel Holding	**	**	**	188
Akzo Nobel	628	422	867	134
Alaska Air Group	NM	996	1159	196
Albany International	678	862	901	178
Albemarle	**	**	**	134
Alberto-Culver	374	732	382	149
Albertson's	189	205	115	170
Alcan Aluminium	NM	770	1037	188
Alco Standard	636	366	850	128
Alex Brown	15	161	121	164
Alexander & Alexander	NM	1092	1090	184
Alexander & Baldwin	610	1115	308	194
Alleghany	232	318	671	184
Allegheny Ludlum	594	507	154	188
Allegheny Power	471	863	595	154
Allen Group	NM	42	641	145
Allergan	NM	344	447	180
Alliance Pharmaceut	**	1094	**	180
Alliant Techsystems	NM	121	510	126
Allied Group	87	112	182	184
AlliedSignal	371	255	348	126, 145
Allmerica Prop & Cas	193	417	339	184
Allstate	**	**	**	184
Alltel	398	477	225	138

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Alumax	**	**	**	188
Alcoa	NM	749	1018	188
AM International	**	**	**	128
AMC Entertainment	NM	619	78	162
Amdahl	NM	1061	1162	138
Amerada Hess	NM	870	1033	158
Amerco	NM	**	878	190
America West Airlines	**	1226	**	196
American Bankers	141	345	306	184
American Brands	408	879	201	174
Amer Business Prods	362	488	393	128
American Electric	548	867	661	154
American Express	NM	944	**	164
American General	NM	317	739	184
American Greetings	169	391	476	162
American Home Prods	386	683	12	180
American Intl Group	352	352	355	184
American Maize	NM	715	965	174
American Medical	NM	57	664	180
American Natl Ins	243	548	785	184
American Premier	106	963	759	184
American President	NM	334	613	194
American Re	**	**	**	184
American Stores	115	264	384	170
American Water Works	383	467	741	154
Ameritech	432	692	302	138
Ameron	NM	1032	1096	142
Ames Dept Stores	**	**	**	190
Ametek	NM	574	566	131
Amgen	**	24	**	180
Amoco	523	740	666	158
AMP	NM	374	356	138
Amphenol	NM	132	1062	131
AMR	NM	951	1131	196
Amsco International	314	1188	438	180
AmSouth Bancorp	340	291	421	164
Amtran	NM	**	938	196
Anacomp	NM	1126	615	128
Analog Devices	NM	76	922	138
Anchor Bancorp	NM	13	210	164
Andrew	107	29	407	131
Angelica	527	981	765	180
Anheuser-Busch Cos	NM	585	232	174
AnnTaylor Stores	3	137	984	190
Anthem Electronics	292	279	307	138

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank

Company	Earnings growth	Stock market	Profitability	Page
Anthony Industries	NM	626	691	145
Aon	415	727	404	184
Apache	206	503	768	158
Apogee Enterprises	665	713	846	142
Apple Computer	602	712	300	138
Applied BioScience	**	1083	**	180
Applied Materials	NM	21	406	138
Applied Power	608	776	928	131
Arbor Drugs	NM	474	519	190
Archer Daniels	431	419	586	174
Argonaut Group	439	650	331	184
Arkansas Best	NM	**	181	194
Armco	NM	1110	1215	188
Armstrong World Inds	649	746	988	145
Arrow Electronics	8	14	459	138
Arvin Industries	100	390	845	145
Asarco	NM	884	1049	188
Ashland Oil	391	892	755	158
Assoc Natural Gas	25	288	737	158
AST Research	NM	158	535	138
AT&T	NM	729	263	138
Guy F Atkinson	NM	1089	1128	142
Atlanta Gas Light	425	834	672	158
Atlantic Energy	NM	972	603	154
Atlantic Richfield	660	906	467	158
Automatic Data	245	181	141	128
AutoZone	29	420	52	190
Avery Dennison	526	831	814	128
Aviall	**	**	**	126
Avnet	377	639	817	138
Avon Products	30	355	4	149
Avondale Industries	NM	1118	1173	126
Aztar	NM	1068	980	196
J Baker	373	1002	523	190
Baker Hughes	NM	1045	896	158
Ball	NM	974	991	178
Bally Entertainment	NM	1180	1158	196
Baltimore G&E	NM	902	740	154
Banc One	238	547	268	164
Bancorp Hawaii	351	711	298	164
Bandag	418	520	63	145
Bank of Boston	NM	498	998	164
Bank of New York	NM	449	668	164
BankAmerica	312	431	375	164
Bankers Life Holding	**	**	**	184
Bankers Trust NY	224	499	147	164
BanPonce	441	514	462	164
Banta	355	217	444	162
CR Bard	NM	675	283	180
Barnes & Noble	**	**	**	190
Barnes Group	652	627	856	145
Barnett Banks	NM	754	696	164
Bassett Furniture Inds	207	439	808	145
Bausch & Lomb	325	811	288	180
Baxter International	NM	772	948	180
BayBanks	NM	323	897	164
Bear Stearns Cos	89	295	143	164
Bearings	NM	645	909	131
Beazer Homes USA	**	**	**	142
Beckman Instruments	NM	360	913	180
Becton Dickinson	435	441	418	180
Bell Atlantic	460	935	372	138
Bell Industries	NM	394	1004	138
BellSouth	528	945	697	138

Rank

Company	Earnings growth	Stock market	Profitability	Page
AH Belo	102	506	528	162
Bemis	411	517	329	178
Beneficial	345	433	385	164
Bergen Brunswick	505	917	565	180
WR Berkley	NM	649	591	184
Berkshire Hathaway	334	184	821	184
Best Buy	24	2	434	190
Bethlehem Steel	NM	897	1208	188
Betz Laboratories	346	412	165	134
Beverly Enterprises	NM	154	1023	180
BIC	222	324	259	149
Big B	NM	242	716	190
Bindley Western Inds	244	654	717	180
Biogen	**	174	**	180
Birmingham Steel	NM	635	823	188
Black & Decker	NM	606	996	145
Blair	NM	569	129	190
H&R Block	221	186	69	128
Block Drug	414	812	517	149
Blount	NM	55	954	131
Boatmen's Bancshs	149	302	437	164
Bob Evans Farms	276	268	359	170
Boeing	148	728	234	126
Boise Cascade	NM	1139	1137	178
Borden	NM	1187	1175	174
Borg-Warner Auto	**	**	**	145
Borg-Warner Security	**	**	**	128
Borland Intl	NM	835	1188	138
Boston Edison	273	755	688	154
Bowater	NM	921	1104	178
Bradlees	**	**	**	190
Briggs & Stratton	73	151	150	131
Brinker Intl	99	87	280	170
Bristol-Myers Squibb	168	796	40	180
British Airways	549	376	465	196
British Petroleum	613	641	851	158
Broadway Stores	**	**	**	190
Broken Hill	NM	253	219	188
Brooke Group	NM	1200	1222	174
Brooklyn Union Gas	449	806	636	158
Brown-Forman	337	848	156	174
Brown Group	NM	691	1070	190
Browning-Ferris Inds	34	1063	520	128
Bruno's	507	1114	530	170
Brunswick	NM	586	1026	145
Burlington Coat	192	427	456	190
Burlington Industries	NM	**	1210	149
Burlington Northern	375	425	606	194
Burlington Resources	60	1016	762	158
Butler Manufacturing	603	239	490	142
Buttrey Food & Drug	NM	**	926	170
BWIP Holding	NM	984	80	131
Cabletron Systems	31	6	13	138
Cablevision Systems	NM	423	1222	162
Cabot	NM	447	525	134
Cadence Design	NM	852	731	138
Caesars World	294	537	206	196
Caldor	10	367	285	190
California Federal	NM	1225	1164	164
CalMat	682	1103	964	142
Camco International	**	**	**	158
Campbell Soup	NM	448	112	174
Canadian Pacific	NM	1080	1130	194
Canandaigua Wine	85	20	469	174

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Canon	552	531	894	128
Capital Cities/ABC	NM	466	563	162
Cardinal Health	88	78	569	180
Caremark Intl	**	**	**	180
Carlisle Cos	354	244	742	142
Carnival	NM	202	178	196
Carolina Freight	NM	1146	1099	194
Carolina Power & Lt	247	751	498	154
Carpenter Technology	NM	685	675	188
Carr-Gottstein Foods	**	**	1014	170
Carson Pirie Scott	**	**	**	190
Carter-Wallace	536	1066	669	149
Case	**	**	**	131
Casey's General Store	153	179	452	170
AM Castle & Co	596	478	870	188
Castle Energy	NM	1035	1199	158
Caterpillar	NM	259	542	131
CBI Industries	NM	843	963	142
CBS	NM	429	100	162
CCP Insurance	**	**	**	184
CDI	646	681	939	128
Cell Genesys	**	**	**	180
Centerior Energy	NM	1178	1132	154
Centex	335	584	627	142
Centocor	**	566	**	180
Central & So West	NM	828	594	154
Central Hudson G&E	465	833	633	154
Central Maine Power	475	1127	654	154
Central Newspapers	489	690	674	162
Central Steel & Wire	696	907	952	188
Cephalon	**	1118	**	180
Ceridian	NM	471	1029	128
Champion Intl	NM	738	1071	178
Charming Shoppes	173	620	264	190
Charter Medical	**	**	**	180
Chase Manhattan	NM	809	947	164
Chemed	NM	896	414	128
Chemical Banking	NM	662	789	164
Chesapeake	679	407	942	178
Chevron	NM	621	692	158
Chicago & N Western	NM	**	1222	194
Chiquita Brands Intl	NM	1041	1120	174
Chiron	**	143	**	180
Chrysler	NM	136	635	145
Chubb	NM	462	423	184
Church & Dwight	114	671	194	149
Cigna	545	726	888	184
CILcorp	517	1009	670	154
Cincinnati Bell	NM	1084	1005	138
Cincinnati Financial	318	300	549	184
Cincinnati Milacron	NM	496	1174	131
CINergy	687	813	589	154
Cintas	187	185	203	128
Cipsco	456	710	553	154
Circuit City Stores	263	171	145	190
Circus Circus	230	720	26	196
Cirrus Logic	146	142	92	138
Cisco Systems	7	8	3	138
Citicorp	NM	414	903	164
Citizens Utilities	387	757	341	138
CKE Restaurants	612	1100	842	170
Clark Equipment	NM	298	1036	131
Clayton Homes	113	48	209	142
Clorox	277	558	220	149

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Club Med	157	640	640	196
CML Group	46	100	30	190
CMS Energy	NM	1129	1138	154
CNA Financial	574	1088	990	184
Coachmen Industries	NM	216	860	145
Coast Savings Finl	NM	666	973	164
Coastal	NM	997	997	158
Coca-Cola	204	129	10	174
Coca-Cola Bottling	NM	784	223	174
Coca-Cola Enterprises	NM	696	1089	174
Coleman	**	**	**	145
Colgate-Palmolive	NM	258	287	149
Collagen	**	644	**	180
Collins & Aikman	**	**	**	145
Coltec Industries	590	**	1222	126
Columbia Gas System	NM	1158	1078	158
Columbia/HCA	NM	5	560	180
Comcast	NM	410	1219	162
Comdisco	600	903	818	128
Comerica	404	368	408	164
Commerce Bancshs	326	341	471	164
Commerce Clearing	681	1012	866	162
Commerce Group Inc	58	26	34	184
Commercial Federal	NM	40	891	164
Commercial Intertech	NM	627	791	131
Commercial Metals	NM	416	764	188
Commonwealth Energy	NM	894	639	154
Compaq Computer	NM	104	228	138
CompUSA	NM	1128	1214	190
Computer Associates	65	72	79	138
Computer Sciences	342	159	494	128
Computervision	NM	**	**	138
Comsat	NM	766	795	138
ConAgra	310	375	254	174
Cone Mills	NM	**	85	149
Conner Peripherals	NM	857	1139	138
Conrail	248	196	924	194
Conseco	26	36	11	184
Consolidated Edison	469	983	550	154
Consol Freightways	NM	1000	1094	194
Consol Natural Gas	480	1067	754	158
Consolidated Papers	638	820	749	178
Consolidated Stores	9	51	383	190
Continental Airlines	**	**	**	196
Continental Can	601	577	583	178
Continental Corp	NM	1164	962	184
Continental Medical	NM	914	975	180
Control Data Systems	NM	**	1182	138
Cooper Industries	422	930	609	131
Cooper Tire & Rubber	140	122	144	145
Adolph Coors	NM	**	**	174
CoreStates Financial	NM	656	318	164
Corning	NM	475	743	138, 180
Countrywide Credit	28	65	170	164
Coventry	388	49	1015	180
CPC International	343	483	124	174
CPI	586	1116	419	190
Cracker Barrel	74	81	258	170
Crane	516	693	371	131
Crawford & Co	223	954	125	184
Cray Research	559	1157	769	138
Crestar Financial	NM	552	683	164
Crompton & Knowles	110	260	71	134
Crown Central Pet	NM	1155	1075	158

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank

Company	Earnings growth	Stock market	Profitability	Page
Crown Cork & Seal	237	192	415	178
CSX	NM	274	875	194
CUC International	32	23	196	190
Cummins Engine	NM	326	843	145
Cyprus Amax Minerals	645	888	1064	188
Cytec Industries	**	**	**	134
Daimler-Benz	NM	**	**	145
Dairy Mart	NM	1142	977	170
Dana	625	597	761	145
Danaher	NM	94	474	131
Dart Group	NM	942	1059	190
Data General	NM	952	1168	138
Dayton Hudson	427	622	402	190
Dean Foods	443	587	323	174
Dean Witter Discover	54	**	**	164
Deere & Co	661	780	914	131
Delchamps	NM	1101	715	170
Dell Computer	NM	7	269	138
Delmarva Power & Lt	NM	965	626	154
Delta Air Lines	NM	1044	1185	196
Delta Woodside Inds	NM	929	840	149
Deluxe	437	995	127	128
Dentsply Intl	**	41	64	180
Detroit Diesel	**	**	**	145
Detroit Edison	383	827	233	154
Dexter	NM	893	770	134
Diagnostic Products	**	1086	**	180
Dial	NM	**	**	149
Diamond Shamrock	624	793	766	158
Dibrell Brothers	NM	310	281	174
Diebold	350	156	701	128
Digital Equipment	NM	1173	1186	138
Dillard Dept Stores	255	698	398	190
Dime Bancorp	NM	1025	1155	164
Walt Disney	395	413	214	162, 196
Dixie Yarns	642	1171	1072	149
Dole	547	1071	725	174
Dollar General	62	19	200	190
Dominion Resources	NM	730	576	154
Donaldson	199	119	297	131
RR Donnelley & Sons	476	717	537	162
Doskocil Cos	**	1010	**	174
Douglas & Lomason	NM	271	882	145
Dover	453	457	244	131
Dow Chemical	683	890	732	134
Dow Jones	595	950	753	162
DPL	NM	465	480	154
DQE	348	665	568	154
Dr Pepper/Seven-Up	NM	**	1222	174
Dress Barn	NM	859	413	190
Dresser Industries	NM	881	723	158
Dreyer's Grand	213	303	275	174
Drug Emporium	NM	1108	1054	190
DSC Communications	178	47	849	138
El du Pont de Nemours	655	563	815	134, 158
Duke Power	420	527	492	154
Dun & Bradstreet	NM	664	132	162
Duracell Intl	NM	608	346	149
Dynatech	NM	357	1045	138
E-Systems	341	594	321	126
Eagle Food Centers	NM	1219	930	170
Eagle-Picher Inds	NM	1232	1222	131
Eastern Enterprises	NM	1052	987	158
Eastman Chemical	**	**	**	134

Rank

Company	Earnings growth	Stock market	Profitability	Page
Eastman Kodak	NM	**	**	149
Eaton	531	309	516	145
Echlin	123	233	548	145
Eckerd	NM	**	**	190
Ecolab	NM	452	937	128
Edison Bros Stores	522	1060	374	190
AG Edwards	84	290	137	164
EG&G	400	953	191	131
Egghead	NM	1004	917	190
El Paso Electric	NM	1223	1178	154
El Paso Natural Gas	**	**	**	158
Electrolux Group	691	705	969	145
Eljer Industries	NM	1195	1169	142
EMC	5	1	68	138
Emerson Electric	403	389	189	131
Emphesys Finl Group	**	**	**	184
Engelhard	688	140	829	188
Enron	156	223	439	158
Enserch	NM	1145	976	158
Entergy	467	868	734	154
Equifax	410	336	166	128
Equitable Cos	**	**	**	184
Equitable of Iowa	68	59	314	184
Equitable Resources	353	797	607	158
ERLY Industries	NM	315	1221	174
ESCO Electronics	NM	406	1069	126
Ethyl	**	**	**	134
Excel Inds	NM	436	735	145
Exxon	399	667	401	158
Fabri-Centers of Amer	662	386	832	190
Fairchild	NM	1210	960	126
Family Dollar Stores	103	222	163	190
F&M Distributors	**	**	658	190
Fay's	NM	1027	526	190
Federal Express	NM	595	936	194
Federal Home Loan Mtg	236	175	111	164
Federal-Mogul	NM	813	968	145
Federal Natl Mortgage	96	211	56	164
Federal Paper Board	NM	781	793	178
Federal Signal	197	127	158	131
Federated Dept Stores	**	**	**	190
Ferro	NM	508	644	134
FHP International	295	493	317	180
Fidelity National	27	80	41	184
Fieldcrest Cannon	NM	718	961	145
Fifth Third Bancorp	240	219	236	164
Figgie Intl	NM	1209	1153	128
Filene's Basement	NM	1214	118	190
Fina	644	898	907	158
Fingerhut Cos	205	238	332	190
First American Corp	NM	521	771	164
First American Finl	53	428	248	184
First Bank System	NM	215	647	164
First Brands	NM	327	192	149
First Chicago	NM	575	706	164
First Colony	112	**	229	184
First Data	163	**	139	128
First Empire State	142	187	352	164
First Fidelity Bncp	NM	248	479	164
First Financial Mgmt	NM	120	695	128
First Interstate Bncp	NM	312	804	164
First Mississippi	NM	542	1040	134
First of America Bank	416	502	364	164
First Security	216	296	513	164

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank				
Company	Earnings growth	Stock market	Profitability	Page
First Tennessee Natl	139	134	296	164
First Union	270	240	400	164
Firststar	369	339	241	164
FirstFed Michigan	210	243	873	164
Fisher Scientific	**	321	**	128
Flagstar Cos	NM	1194	1220	170
Fleet Finl Group	NM	687	758	164
Fleetwood Enterprises	NM	373	629	145
Fleming Cos	564	1037	810	170
Florida Progress	481	774	619	154
Florida Rock Inds	684	998	940	142
Flowers Industries	NM	869	458	174
Fluor	NM	642	396	142
FMC	618	361	33	134
Foamex International	**	**	**	145
Food Lion	225	1039	230	170
Foodarama Supermks	NM	1186	1092	170
Foodmaker	**	**	**	170
Ford Motor	NM	581	932	145
Foremost Corp of Amer	43	909	578	184
Forest City Enterprises	NM	1020	1012	142
Foster Wheeler	235	362	679	142
Foundation Health	82	54	105	180
FoxMeyer Health	NM	789	1117	180
FPL Group	NM	925	838	154
Franklin Resources	108	125	36	164
Freeport-McMoRan	NM	762	176	188
Fremont General	92	343	381	184
Fretter	NM	1163	1024	190
Fruit of the Loom	133	270	102	149
HB Fuller	327	200	590	134
Future Now	66	1003	77	138
Gannett	458	736	172	162
Gap	91	115	35	190
Gateway 2000	NM	**	**	138
GATX	NM	659	608	164
Gaylord Container	NM	738	1217	178
Gaylord Entertainment	NM	378	430	162
Geico	379	370	205	184
GenCorp	653	900	250	126
Genentech	**	194	**	180
General Dynamics	NM	286	53	126
General Electric	322	438	155	126, 131
General Host	NM	1072	1148	190
General Instrument	**	**	**	138
General Mills	452	405	29	174
General Motors	NM	899	726	145
General Motors EDS	231	135	101	128
GM Hughes Electronics	NM	567	1027	126
General Nutrition Cos	NM	**	745	190
General Public Utils	NM	795	602	154
General Re	356	556	277	184
General Signal	NM	470	802	131
Genesco	NM	1203	1146	190
Genetics Institute	**	686	**	180
Geneva Steel	NM	668	1125	188
Genlyte Group	667	1175	902	131
Genovese Drug Stores	200	510	361	190
Gensia	**	1013	**	180
Genuine Parts	407	616	188	145
Genzyme	**	189	**	180
Geon	**	**	**	134
Georgia Gulf	694	89	824	134
Georgia-Pacific	NM	486	1017	178

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Getty Petroleum	NM	1121	1057	190
Giant Food	496	1005	326	170
Gibson Greetings	634	1147	727	149
Giddings & Lewis	104	294	482	131
Gilead Sciences	**	**	**	180
Gillette	265	109	31	149
PH Glatfelter	632	1055	470	178
Glaxo Holdings	218	452	67	180
Glendale Federal Bank	**	**	**	164
Golden West Finl	183	544	257	164
Good Guys	NM	266	582	190
BF Goodrich	NM	771	905	134
Goody's Family	**	1135	110	190
Goodyear	NM	387	515	145
Goulds Pumps	570	700	588	131
Govt Technology Svcs	NM	966	153	128
WR Grace	692	657	971	134
WW Grainger	364	364	315	128
GranCare	**	487	**	180
Grand Metropolitan	669	839	694	174
Granite Construction	677	865	852	142
Great American Mgmt	NM	531	1076	131
Great A&P Tea	NM	1185	1022	170
Great Lakes Chemical	134	169	108	134
Great Western Finl	672	883	933	164
Greif Brothers	NM	851	786	178
Grey Advertising	NM	946	622	162
Greyhound Lines	**	1211	**	194
Grossman's	NM	1151	1165	190
Grow Group	NM	319	698	134
GTE	543	964	488	138
Gtech Holdings	NM	**	22	128
Guilford Mills	137	617	638	149
Hadson	NM	1230	1177	158
Halliburton	NM	1005	1107	158
Handleman	NM	1149	446	162
Handy & Harman	NM	836	993	188
MA Hanna	685	540	908	134
Hannaford Bros	300	450	286	170
Hanover Direct	NM	1132	1189	190
Hanson	551	853	529	142
Harcourt General	NM	524	1084	162
John H Harland	459	885	186	128
Harley-Davidson	NM	34	299	145
Harleysville Group	397	533	449	184
Harman International	NM	322	800	145
Harnischfeger Inds	611	660	950	131
Harper Group	540	798	618	194
Harris	78	583	778	138
Harsco	47	377	294	128
Hartford Steam Boiler	651	1015	463	184
Hartmarx	NM	1202	1184	149
Harvard Industries	**	**	**	145
Hasbro	131	160	394	149
Hawaiian Electric	541	1038	920	154
Hayes Wheels Intl	NM	**	927	145
Health Care & Retire	**	162	**	180
Health Systems Intl	289	254	20	180
HealthSouth Rehab	NM	93	774	180
HealthTrust	51	199	134	180
Hechinger	587	994	1007	190
Heilig-Meyers	164	44	428	190
HJ Heinz	393	790	103	174
Helene Curtis Inds	NM	561	720	149

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Rank

Company	Earnings growth	Stock market	Profitability	Page
Hercules	55	106	825	134
Hershey Foods	349	590	235	174
Hewlett-Packard	257	226	379	138
Hexcel	NM	1207	1195	126
Hibernia	NM	1190	1123	164
Hillenbrand Inds	177	523	140	180
Hillhaven	NM	172	504	180
Hills Stores	**	**	**	190
Hilton Hotels	504	1075	663	196
Holly	NM	858	14	158
Home Depot	61	32	131	190
Home Shopping	NM	404	982	190
Homestake Mining	NM	895	1143	188
HON Industries	338	522	96	128
Honda Motor	648	550	959	145
Honeywell	498	511	161	131
Horace Mann Educators	NM	847	149	184
Hormel Foods	298	495	265	174
Host Marriott	**	**	**	196
Houghton Mifflin	NM	464	570	162
House of Fabrics	NM	1221	1047	190
Household Intl	532	512	454	164
Houston Industries	479	905	680	154
Hovnanian Enterprises	NM	1051	886	142
Howell	NM	627	1035	158
Hubbell	NM	473	303	131
Hudson Foods	NM	203	752	174
Huffy	NM	752	790	145
Hughes Supply	563	876	1006	142
Humana	NM	**	794	180
JB Hunt Transport	454	682	370	194
Huntington Bancshs	275	301	289	164
IBP	333	190	709	174
ICF Kaiser Intl	NM	1177	1167	128
ICN Pharmaceuticals	155	64	119	180
IES Industries	NM	934	551	154
Illinois Central	184	74	62	194
Illinois Tool Works	402	276	295	131
Illinova	NM	823	1093	154
IMC Global	NM	723	1079	134
Immucor	**	737	**	180
Imo Industries	NM	1122	1200	131
Imperial Chemical Inds	NM	**	**	134
Imperial Holly	NM	1167	1043	174
Inacom	NM	957	612	190
Inco	699	819	623	188
Independent Insurance	647	1160	995	184
Indresco	627	**	1050	131
Ingersoll-Rand	502	543	652	131
Ingles Markets	567	744	834	170
Inland Steel Inds	NM	874	1172	188
Instrument Systems	150	45	246	149
Integra Financial	117	372	347	164
Intel	70	83	83	138
Intelligent Electron	79	251	290	190
Inter-Regional Finl	NM	126	95	164
Interco	**	**	**	145, 149
Interface	589	1104	813	128
Intergraph	NM	1159	1087	138
Interlake	NM	1220	1222	131
Internet	NM	1062	1135	188
IBM	NM	1030	1166	138
Intl Flavors & Frags	332	241	198	134
Intl Game Technology	20	10	18	138

Rank

Company	Earnings growth	Stock market	Profitability	Page
Intl Multifoods	NM	948	861	174
International Paper	666	623	881	178
Intl Specialty Prods	NM	1162	**	134
Intl Technology	NM	1153	1108	128
Interpublic Group	254	231	157	162
Interstate Bakeries	NM	1065	816	174
Iowa-Illinois G&E	509	992	656	154
Ipalco Enterprises	500	769	601	154
Itel	NM	380	1127	138
ITT	424	480	841	184
IVAX	1	84	216	180
Jacobs Engineering	250	98	243	142
Jacobson Stores	643	1168	946	190
James River Corp Va	NM	1033	1083	149
Jamesway	NM	1228	1196	190
J&L Specialty Steel	**	**	453	188
Jefferson-Pilot	143	283	536	184
Jefferson Smurfit	**	**	**	178
Jenny Craig	NM	1208	445	190
John Alden Financial	17	**	**	184
Johnson & Johnson	215	299	59	149, 180
Johnson Controls	301	434	657	145
Jones Apparel Group	52	940	7	149
Jostens	NM	1112	854	190
Justin Industries	42	166	270	149
Kaman	NM	791	1044	126
Kansas City P&L	NM	613	631	154
Kansas City Southern	170	105	422	194
Kaufman & Broad Home	620	880	577	142
Kellogg	286	333	48	174
Kellwood	NM	568	660	149
Kelly Services	561	949	405	128
Kemper	NM	792	877	184
Kennametal	631	306	858	131
Kerr-McGee	553	901	955	158
KeyCorp	198	426	432	164
Keystone Intl	NM	946	333	131
Kimball International	NM	704	621	145
Kimberly-Clark	438	539	185	149
Kinder-Care Learning	**	**	**	180
King World Prods	412	505	27	162
Kmart	NM	967	935	190
KN Energy	**	518	730	158
Knight-Ridder	513	976	416	162
Kohl's	33	**	**	190
Kroger	182	332	1222	170
KU Energy	468	611	426	154
LA Gear	NM	1217	1181	149
La-Z-Boy Chair	450	351	592	145
Laclede Gas	445	688	614	158
LADD Furniture	NM	1141	1048	145
Lafarge	NM	802	1073	142
Lancaster Colony	90	77	106	174
Lance	503	1054	342	174
Lands' End	306	356	94	190
Landstar System	**	**	**	194
Lawyers Title	**	432	**	184
LDDS Communications	151	15	301	138
Lear Seating	NM	**	**	145
Legent	NM	669	330	138
Leggett & Platt	262	164	336	145
Lehman Bros Holdings	**	**	**	164
Lennar	336	176	681	142
Leucadia National	64	61	93	184

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Levitz Furniture	NM	**	1222	190
LG&E Energy	455	557	572	154
Liberty Corp	246	673	593	184
Life Technologies	**	598	**	180
Eli Lilly	520	911	199	180
Limited	324	702	120	190
Lincoln Electric	NM	444	1152	131
Lincoln National	181	670	624	184
Litton Industries	577	915	74	126
Liz Claiborne	389	922	122	149
Lockheed	538	293	534	126
Loctite	361	267	167	134
Loews	497	1059	645	174
Lone Star Tech	700	284	953	188
Long Island Lighting	474	1023	703	154
Longs Drug Stores	491	1064	518	190
Longview Fibre	626	578	718	178
Loral	320	133	340	126
Lotus Development	NM	604	322	138
Louisiana Land	NM	844	972	158
Louisiana-Pacific	NM	250	557	178
Lowe's Cos	269	37	598	190
LSI Logic	NM	30	1116	138
LTV	**	**	**	188
Lubrizol	NM	340	343	134
Lukens	619	748	677	188
Lyondell Petrochem	NM	661	15	134
M/A-Com	NM	452	1085	138
Mac Frugal's Bargains	NM	396	597	190
Magma Copper	629	88	986	188
MagneTek	NM	330	989	131
Mallinckrodt Group	NM	338	925	180
Manor Care	86	149	177	180
Manpower	NM	275	1190	128
Manville	663	815	865	142
Mapco	381	576	107	158
Marion Merrell Dow	154	985	50	180
Mark IV Industries	NM	107	282	131
Marriott Intl	**	**	**	196
Marsh & McLennan Cos	462	873	58	184
Marsh Supermarkets	NM	1124	620	170
Marshall & Ilsley	308	329	468	164
Marshall Industries	315	124	440	138
Martin Marietta	370	229	168	126
Masco	NM	886	777	142
MascoTech	NM	393	885	145
Matsushita Electric	697	872	1011	145
Mattel	366	91	128	149
Maxicare Health	NM	363	17	180
Maxtor	NM	1165	1193	138
Maxus Energy	NM	1192	1197	158
Maxxam	NM	1053	836	188
May Dept Stores	287	418	187	190
Mayflower Group	**	**	**	194
Maytag	657	1047	872	145
MBNA	167	213	**	164
McClatchy Newspapers	NM	767	779	162
McCormick & Co	196	451	126	174
McDermott Intl	NM	768	746	131
McDonald's	293	346	208	170
McDonnell Douglas	75	183	485	126
McGraw-Hill	NM	625	678	162
MCI Communications	302	849	130	138
McKesson	NM	102	457	180

Rank				
Company	Earnings growth	Stock market	Profitability	Page
MCN	NM	408	411	158
MDC Holdings	NM	82	1122	142
Mead	640	591	921	178
Media General	190	943	981	162
MedImmune	**	1224	**	180
Medtronic	161	99	113	180
Mellon Bank	175	316	412	164
Melville	550	1046	460	190
Mentor Graphics	NM	1024	1161	138
Mercantile Bancorp	126	273	461	164
Mercantile Stores	558	761	803	190
Merck	208	492	9	180
Mercury General	94	67	72	184
Meredith	NM	529	807	162
Meridian Bancorp	NM	479	545	164
Merisel	NM	460	580	138
Merrill Lynch	12	103	179	164
Merry-Go-Round	NM	1212	806	190
Fred Meyer	124	292	500	190
Michael Foods	NM	658	966	174
Michaels Stores	48	18	388	190
Michigan National	658	395	848	164
MicroAge	188	157	390	190
Micron Technology	NM	12	99	138
Microsoft	41	25	23	138
Mid Atlantic Medical	21	22	1	180
Midlantic	NM	980	1129	164
Midwest Resources	519	1093	714	154
Herman Miller	NM	615	812	128
Millipore	511	287	738	180
Mine Safety Appliances	617	1026	887	128
Minn Mining & Mfg	463	570	221	128
Minnesota Power & Lt	483	913	649	154
Mirage	512	285	472	196
Mitchell Energy	533	1019	910	158
Mobil	NM	559	699	158
Modine Manufacturing	316	92	327	145
Mohawk Industries	44	**	37	145
Molecular Biosystems	**	1150	**	180
Molex	328	139	547	138
Monk-Austin	NM	**	180	174
Monsanto	501	605	532	134
Montana Power	347	777	616	154
Moore Corp	NM	1107	1115	128
JP Morgan & Co	101	555	224	164
Morgan Products	NM	1133	1134	142
Morgan Stanley	281	272	164	164
Morrison Knudsen	591	1087	781	142
Morrison Restaurants	285	177	253	170
Morton International	284	165	424	134
Motorola	274	62	420	138
Mueller Industries	**	85	958	142
Multimedia	128	920	1222	162
Murphy Oil	317	775	879	158
Musciand Stores	40	**	357	190
Nacco Industries	654	821	835	131
Nalco Chemical	344	588	90	134
Nash Finch	NM	1096	707	170
Nashua	NM	1125	1106	128
National City	451	538	362	164
Natl Convenience	**	**	**	170
National Fuel Gas	423	882	643	158
National Health Labs	290	799	43	180
National Medical	NM	1056	1082	180

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank

Company	Earnings growth	Stock market	Profitability	Page
Natl Semiconductor	NM	150	805	138
National Service	NM	875	653	131
National Steel	NM	**	1198	188
National Western Life	NM	97	76	184
NationsBank	NM	829	505	164
Navistar Intl	NM	1193	1202	145
NBD Bancorp	430	549	391	164
NCH	NM	801	410	134
NEC	695	919	1052	138
Neiman Marcus Group	NM	932	1066	190
New England Electric	NM	807	435	154
NY State E&G	508	1095	687	154
New York Times	NM	933	983	162
Newell Co	229	256	171	145
Newmont Mining	614	803	42	188
News Corp	NM	220	256	162
Niagara Mohawk Power	174	918	782	154
Nicor	464	846	324	158
NIKE	256	168	82	149
Nine West Group	**	**	**	149
Nipsco Industries	226	501	478	154
Nissan Motor	NM	1022	1080	145
NL Industries	NM	1154	1010	134
Noland	534	938	1002	142
NorAm Energy	NM	1213	1030	158
Nordson	385	182	104	131
Nordstrom	428	596	389	190
Norfolk Southern	440	442	686	194
Norrell	NM	**	883	128
Nortek	NM	224	1171	142
Northeast Utilities	482	870	642	154
No States Power	486	750	617	154
Northern Telecom	NM	458	1019	138
Northern Trust	372	369	255	164
Northrop Grumman	668	146	496	126
Northwest Airlines	**	**	**	196
Northwestern Steel	NM	**	**	188
Norwest	253	236	190	164
NovaCare	56	706	240	180
Novell	NM	43	117	138
Nucor	NM	73	540	188
NWNL Cos	367	446	690	184
Nynex	NM	988	893	138
Oakwood Homes	57	28	429	142
Occidental Petroleum	NM	1082	1110	158
Office Depot	36	27	556	190
OfficeMax	**	**	**	190
Ogden	NM	1097	567	128
Ohio Casualty	NM	632	533	184
Ohio Edison	NM	1036	855	154
Oklahoma G&E	495	991	495	154
Old Kent Financial	323	349	311	164
Old Republic Intl	118	320	338	184
Olin	NM	928	1077	134
Olsten	NM	110	949	128
Omnicom Group	291	230	159	162
Oneida	607	886	784	145
Oneok	461	758	712	158
Oracle Systems	NM	71	57	138
Orange & Rockland	470	904	587	154
Oregon Steel Mills	557	614	473	188
Orion Capital	171	201	195	184
OrNda HealthCorp	NM	144	1179	180
Oryx Energy	NM	1201	1042	158

Rank

Company	Earnings growth	Stock market	Profitability	Page
Oshkosh Truck	4	706	862	126
Outboard Marine	NM	1078	1111	145
Overseas Shipholding	592	832	978	194
Owens & Minor	67	60	366	180
Owens-Corning	597	747	1222	142
Owens-Illinois	NM	889	673	178
Oxford Industries	121	204	503	149
Paccar	584	699	733	145
Pacific Enterprises	NM	1184	1126	158
Pacific G&E	382	842	538	154
Pacific Telesis	675	**	756	138
PacificCare Health	37	38	55	180
PacificCorp	477	1034	819	154
PaineWebber Group	NM	247	310	164
Pall	311	388	279	180
Pamida Holdings	NM	402	944	190
Panhandle Eastern	NM	1040	853	158
Paragon Trade Brands	**	**	**	149
Parker Hannifin	583	311	869	131
Payless Cashways	**	**	**	190
PECO Energy	NM	818	650	154
Penn Traffic	NM	198	1216	170
JC Penney	NM	582	399	190
Pennsylvania P&L	466	961	464	154
Pennzoil	NM	1137	833	158
Pentair	NM	191	596	131
People's Bank	NM	435	1103	164
Peoples Energy	473	854	581	158
Pep Boys	309	117	554	190
PepsiCo	228	347	98	170, 174
Perini	NM	1199	1121	142
Perkin-Elmer	NM	572	747	180
Perrigo	16	971	38	180
Perry Drug Stores	NM	986	1101	190
Pet	NM	1050	611	174
Petrie Stores	NM	652	1088	190
Petroleum Heat & Pwr	NM	**	1222	158
Pfizer	NM	197	309	180
Phelps Dodge	576	245	319	188
PHH	396	773	509	128
Philip Morris Cos	212	444	39	174
Philips Electronics	NM	627	1081	145
Phillips Petroleum	616	564	780	158
Phillips-Van Heusen	152	257	148	149
Physician Corp Amer	NM	**	**	180
Piedmont Natural Gas	434	526	475	158
Pier 1 Imports	604	1031	751	190
Pilgrim's Pride	394	459	646	174
Pinkerton's	650	1018	376	128
Pinnacle West	NM	353	985	154
Pioneer Electronic	598	1099	923	145
Pioneer Financial Svcs	NM	1143	1065	184
Pioneer Hi-Bred Intl	135	207	174	174
Pioneer-Standard Elec	160	39	239	138
Pitney Bowes	288	491	237	128
Pittston Minerals	NM	**	1218	158
Pittston Services	63	680	708	194
Pittway	NM	**	**	128
Ply Gem Industries	569	327	915	142
PNC Bank	NM	824	417	164
Polaroid	NM	1070	97	149
Policy Management Sys	NM	571	916	138
Pope & Talbot	NM	1091	868	178
Portland General	NM	989	830	154

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Pottlatch	633	826	826	178
Potomac Electric	490	1017	571	154
PPG Industries	562	280	604	134
Praxair	**	**	**	134
Precision Castparts	417	822	662	126
Premark International	268	113	579	145
Premier Bancorp	6	68	368	164
Premier Industrial	363	456	91	131
Price/Costco	NM	514	773	190
Procter & Gamble	NM	305	292	149
Progressive	144	118	61	184
Promus Cos	38	33	278	196
Protective Life	98	108	305	184
Provident Life & Acc	NM	912	951	184
Providian	339	655	335	184
Public Service Colo	NM	817	483	154
Public Service NM	NM	993	1141	154
Pub Svc Enterprise	NM	969	610	154
Puget Sound P&L	NM	940	552	154
Pulitzer Publishing	NM	516	51	162
Pulte	194	353	365	142
Quaker Oats	280	716	87	174
Quaker State	NM	861	1028	158
Quality Food Centers	95	476	60	170
Quanex	698	396	884	188
Quantum	35	209	207	138
Questar	127	484	512	158
Quorum Health Group	NM	**	217	180
QVC	NM	141	788	190
Ralcorp Holdings	**	**	**	174
Ralston-Continental	**	**	**	174
Ralston-Purina	**	837	86	174
Raychem	NM	765	1098	138
Rayonier	NM	**	1025	178
Raytheon	376	281	193	126
Reader's Digest Assn	251	411	47	162
Reebok International	296	228	142	149
Reliance Group	NM	743	1039	184
Repligen	**	1205	**	180
Republic New York	331	600	433	164
Resorts Intl	NM	706	1211	196
Revco DS	**	**	**	190
Rexene	**	1227	**	134
Reynolds & Reynolds	125	66	238	128
Reynolds Metals	NM	910	1102	188
Rhone-Poulenc	656	651	906	134
Rhone-Poulenc Rorer	97	348	49	180
Richfood Holdings	19	69	151	170
Riggs National	NM	1179	1183	164
Riser Foods	664	927	451	170
Rite Aid	365	513	705	190
Riverwood Intl	**	**	1013	178
RJR Nabisco	NM	1105	1058	174
Roadway Services	303	633	403	194
Robertson-Ceco	NM	1233	1213	142
Rochester G&E	487	860	719	154
Rochester Telephone	448	724	501	138
Rock-Tenn	NM	**	**	178
Rockwell Intl	NM	461	252	126
Rohm & Haas	556	382	648	134
Rohr	NM	1170	1061	126
Rollins	239	265	32	128
Rose's Stores	NM	1231	1204	190
Ross Stores	421	891	249	190

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Rouge Steel	**	**	**	128
Rouse	NM	1081	1187	164
Royal Dutch Petroleum	484	509	655	158
RPM	321	282	260	134
Rubbermaid	249	430	173	145
Ruddick	413	553	559	170
Russell	NM	694	508	149
Ryder System	NM	742	**	194
Rykoff-Sexton	599	956	1038	170
Ryland Group	NM	1021	931	142
Saatchi & Saatchi	NM	1229	1206	162
Safeco	358	624	363	184
Safeguard Scientifics	554	148	676	128
Safety-Kleen	NM	1102	1020	128
Safeway	159	152	123	170
St Joe Paper	689	205	999	178
St Paul Cos	392	500	682	184
Salant	NM	1176	1201	149
Sallie Mae	165	1076	21	164
Salomon	93	383	334	164
San Diego G&E	444	975	397	154
Santa Fe Energy Res	NM	1130	1124	158
Santa Fe Pacific	**	**	**	194
Sanyo Electric	NM	982	1051	145
Sara Lee	NM	452	345	174
Savannah Foods	529	1183	387	174
Scana	NM	714	436	154
SCEcorp	493	1079	543	154
Schering-Plough	147	337	16	180
Schlumberger	307	735	262	158
Scholastic	22	**	45	162
A Schulman	380	193	320	134
Schultz Sav-O Stores	NM	734	702	170
Charles Schwab	13	35	44	164
SCI Systems	NM	214	874	138
Scientific-Atlanta	539	123	831	138
Scios Nova	**	960	**	180
Scott Paper	NM	519	1086	149
Scotts	11	**	685	134
EW Scripps	264	627	431	162
Seaboard	506	481	704	174
Seagate Technology	119	359	293	138
Seagram	537	618	722	174
Sealed Air	NM	86	1222	178
Sears, Roebuck	202	580	820	190
Seaway Food Town	575	1181	919	170
Selective Insurance	573	599	693	184
Sensomatic Electron	109	52	443	128
Sepracor	**	1109	**	180
Sequa	NM	1197	1112	126
Service Corp Intl	252	153	524	149
Service Merchandise	NM	678	6	190
Shared Medical Sys	405	170	380	128
Shaw Industries	172	246	169	149
Shawmut National	NM	926	1021	164
Sherwin-Williams	319	289	274	134
Shoney's	305	678	1222	170
ShopKo Stores	NM	1028	386	190
Sigma-Aldrich	241	674	146	134
Signet Banking	NM	249	573	164
Silicon Graphics	71	53	736	138
Sizzler Intl	NM	1169	1151	170
SKF Group	NM	1077	1140	131
Skyline	NM	601	871	142

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Rank

Company	Earnings growth	Stock market	Profitability	Page
Smart & Final	NM	722	599	190
AO Smith	NM	75	724	145
Smithfield Foods	NM	50	247	174
SmithKline Beecham	NM	536	600	180
Smith's Food & Drug	266	753	561	170
JM Smucker	429	612	337	174
Snap-on	544	845	511	145
Snapple Beverage	**	**	**	174
Soletron	45	4	133	138
Sonat	129	697	349	158
Sonoco Products	NM	676	273	178
Sony	671	794	974	145
Southdown	NM	1131	1136	142
Southern Co	419	562	521	154
So New Eng Telecom	NM	1057	864	138
Southern Pacific Rail	NM	**	1212	194
Southland	NM	130	**	170
SouthTrust	283	297	328	164
Southwest Airlines	209	63	584	196
Southwest Gas	659	978	979	158
Southwestern Bell	390	579	450	138
Southwestern Life	NM	1152	251	184
Southwestern Pub Svc	478	979	395	154
Spiegel	571	485	728	190
Springs Industries	NM	830	880	145
Sprint	530	990	**	138
SPS Technologies	NM	1111	1147	126
SPX	641	1118	929	145
Std Commercial	NM	808	1056	174
Standard Fedl Bank	166	138	360	164
Standard Motor Prods	NM	672	847	145
Standard Products	NM	609	651	145
Standard Register	NM	788	632	128
Standex International	272	131	245	128
Stanhome	NM	646	212	149
Stanley Works	499	850	634	131
Staples	39	58	776	190
State Street Boston	234	385	215	164
Stepan	NM	392	507	134
Sterling Chemicals	690	463	325	134
Stewart & Stevenson	180	163	231	131
Stone Container	NM	1085	1163	178
Stop & Shop Cos	NM	331	892	170
Storage Technology	NM	167	1034	138
Stratus Computer	NM	384	427	138
Strawbridge	572	1014	837	190
Stride Rite	191	962	75	149
Stryker	77	111	114	180
Sun Co	NM	1058	1055	158
Sun Microsystems	176	262	497	138
Sun TV & Appliances	59	695	276	190
SunAmerica	50	96	312	184
Sunbeam-Oster	**	**	369	145
Sundstrand	NM	530	183	126
SunTrust Banks	330	210	291	164
Super Food Services	582	1140	895	170
Supervalu	360	987	266	170
Synergen	**	1098	**	180
Sysco	217	365	213	170
T Cell Sciences	**	1148	**	180
Talbots	NM	**	222	190
Talley Industries	NM	1007	1203	126
Tambrands	NM	689	19	149
Tandem Computers	NM	1048	1118	138

Rank

Company	Earnings growth	Stock market	Profitability	Page
Tandy	670	764	822	190
TBC	258	350	136	145
TCF Financial	NM	128	481	164
Tech Data	72	17	197	138
TECO Energy	426	609	377	154
Tecumseh Products	NM	643	797	131
Tejas Gas	297	180	665	158
Tektronix	NM	218	1016	138
Tele-Communications	NM	589	1156	162
Teledyne	635	684	546	126
Teleflex	406	335	373	126
Tele & Data Systems	220	855	956	138
Temple-Inland	623	551	750	178
Tenneco	NM	1090	801	131
Teradyne	NM	114	912	138
Terex	NM	1161	1192	131
Terra Industries	NM	424	1144	134
Tesoro Petroleum	NM	864	1150	158
Texaco	579	810	522	158
Texas Industries	NM	440	970	188
Texas Instruments	NM	208	748	138
Texas Utilities	609	937	899	154
Textron	378	232	574	126
Thermo Electron	162	188	527	128
Thiokol	116	252	313	126
Thomas & Betts	492	534	487	131
Thomas Industries	680	1074	992	145
Thorn Apple Valley	546	16	65	174
3Com	NM	31	1063	138
Tidewater	NM	421	889	158
Tiffany	NM	908	744	190
TIG Holdings	NM	**	**	184
Time Warner	NM	703	1157	162
Times Mirror	605	955	721	162
Timken	NM	676	1068	131
TJ International	588	525	898	142
TJX Cos	NM	841	70	190
TNT Freightways	271	**	711	194
Torchmark	267	877	81	184
Toro	NM	816	890	145
Tosco	NM	565	378	158
Toyota Motor	639	469	941	145
Toys 'R' Us	279	400	271	190
Trans World Entertain	518	1172	425	190
Transamerica	NM	731	763	184
Transatlantic Holding	259	261	353	184
Transco Energy	NM	1206	1154	158
Travelers	136	178	211	164
Tredegart Industries	NM	725	934	188
Triarc Cos	NM	804	1180	149
Tribune	NM	759	659	162
Trident NGL Holding	**	**	**	158
Trinity Industries	NM	358	637	131
Trinova	673	636	1114	131
TRW	515	528	757	145
Tucson Electric	NM	1216	1205	154
Tultex	593	1136	839	149
Turner	NM	1134	1105	142
Turner Broadcasting	NM	838	1222	162
20th Century Inds	278	825	109	184
Tyco International	NM	916	539	131
Tyco Toys	NM	1144	1060	149
Tyson Foods	NM	304	502	174
UAL	NM	1204	1160	196

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Rank				
Company	Earnings growth	Stock market	Profitability	Page
UGI	535	779	783	158
UJB Financial	NM	573	900	164
Ultramar	**	**	**	158
UNC	81	787	876	126
Unicom	686	1117	1001	154
Unifi	219	79	152	149
Unilever NV	433	541	392	174
Union Bank	566	648	684	164
Union Camp	693	634	904	178
Union Carbide	674	**	911	134
Union Electric	457	653	442	154
Union Pacific	NM	638	506	194
Union Texas Petrol	568	782	88	158
Unisys	NM	1069	1142	138
United HealthCare	18	3	25	180
United Illuminating	524	977	760	154
US Bancorp	304	554	351	164
US Bioscience	**	607	**	180
US Healthcare	14	9	8	180
US Home	NM	1001	**	142
US Shoe	NM	936	1053	190
US Surgical	NM	379	455	180
United Stationers	514	1106	844	128
United Technologies	NM	763	1009	126
Unitrin	510	494	857	184
Univar	676	856	957	134
Universal	NM	603	202	174
Universal Foods	409	701	226	174
Universal Forest Prod	130	**	304	178
Universal Health	69	116	689	180
Unocal	76	924	772	158
UNUM	122	415	344	184
Upjohn	227	973	160	180
US West	621	939	799	138
USAir Group	NM	1222	1209	196
USF&G	NM	1156	1133	184
USG	**	**	**	142
Uslico	565	968	1031	184
USLife	357	785	792	184
UST Inc	145	308	5	174
USX-Delhi	**	**	**	158
USX-Marathon	NM	1049	1003	158
USX-US Steel	NM	602	1194	188
UtiliCorp United	494	709	700	158
Valassis Commun	NM	**	1222	162
Valero Energy	261	535	713	158
Valhi	NM	1182	1113	174
Valmont Industries	560	958	796	131
Valspar	203	278	138	134
Value City Dept Stores	111	1123	116	190
Value Health	83	234	218	180
Varian Associates	195	90	544	138
Varity	622	443	1032	145
Venture Stores	185	313	73	190
Vertex Pharmaceutical	**	878	**	180
VF	282	396	227	149
Viacom	NM	504	859	162
Vicorp Restaurants	214	866	630	170
Vigoro	NM	592	28	134
Viking Office Prods	80	11	162	190
Village Super Market	NM	1138	1041	170
Vishay Intertech	299	70	448	138
VLSI Tech	NM	342	1100	138
Volt Info Sciences	NM	195	1091	128

Rank				
Company	Earnings growth	Stock market	Profitability	Page
Volvo	NM	560	1145	145
Vons Cos	580	805	441	170
Vulcan Materials	542	778	484	142
VWR	525	760	272	180
Waban	NM	482	798	190
Wachovia	359	399	354	164
Wackenhut	615	721	625	128
Wal-Mart Stores	120	227	66	190
Walgreen	260	314	184	190
Wallace Computer Svcs	446	970	541	128
Wang Laboratories	**	**	**	138
Warnaco Group	NM	490	1222	149
Warner-Lambert	NM	546	54	180
Washington Gas Light	447	800	558	158
Washington National	NM	1042	967	184
Washington Post	555	959	358	162
Washington Savings	NM	221	409	164
Watts Industries	401	593	477	131
Del Webb	NM	235	811	142
Weirton Steel	NM	1029	1170	188
Weis Markets	485	999	555	170
Wellman	488	1043	493	134
WellPoint Health	23	**	2	180
Wells Fargo	521	263	466	164
Wendy's Intl	105	95	575	170
Western Atlas	NM	**	**	158
Western Digital	NM	225	1109	138
Western Gas Resources	49	401	367	158
Western National	132	**	175	184
Western Publishing	NM	1113	1095	162
Western Resources	436	733	585	154
Westinghouse	NM	1191	1176	131
Westmoreland Coal	NM	1215	1207	158
WestPoint Stevens	**	**	**	149
Westvaco	637	756	827	178
Weyerhaeuser	NM	545	775	178
Whirlpool	179	403	564	145
Whitman	NM	663	350	174
WHX	**	237	1067	188
Wickes Lumber	**	**	**	190
Wicor	NM	783	767	158
Willamette Inds	606	409	729	178
Willcox & Gibbs	NM	**	**	131
Williams Cos	233	468	667	158
Winn-Dixie Stores	242	381	135	170
Winnebago Industries	NM	325	918	145
Wisconsin Energy	472	719	531	154
Witco	578	496	828	134, 158
WLR Foods	NM	437	628	174
WMX Technologies	NM	1008	267	128
Woolworth	NM	1166	1097	190
Worthington Inds	368	212	284	188
WPL Holdings	NM	741	514	154
WPP Group	NM	1218	**	162
WPS Resources	442	745	489	154
Wm Wrigley Jr	211	147	46	174
Wyle Laboratories	313	371	710	138
Xerox	NM	307	1074	128
Yellow	581	1073	863	194
York International	2	472	499	131
Younkers	186	**	261	190
Zenith Electronics	NM	840	1191	145
Zenith National Ins	NM	637	605	184
Zurn Industries	NM	1174	943	128

Earnings growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

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As 1994 drew to an end, the Barra All-US index was off 6.6% for the year. Despite this higher-interest-rate-induced slide, many economic sectors were quite robust. One example is commercial and residential property. But real estate stocks are sensitive to interest rates and have declined along with the rest of the market.

Franklin Real Estate Securities fund manager Matthew Avery argues there are bargains out there. "You can get 6% to 8% [yields] on real estate investment trusts that sell close to the value of the underlying property," says Avery, whose \$15 million (assets) fund holds stakes in 50 REITs. Among his favorites are 3 that own apartment buildings in the South—Merry Land & Investment, Mid-America Apartment Communities and Property Trust of America. All 3 yield over 7% and meet Avery's standards for dividend growth, a strong balance sheet and high-quality management.

Special focus

Congressional approval of two trade bills—first Nafta and now GATT—has opened the door to increased American exports. The table lists eight U.S. firms whose exports account for at least 20% of their total revenues. Free trade works both ways: Foreign competitors may now have an easier time selling their wares here.

Foreign exchange

Company	Price	Export sales ¹
Archer-Daniels-Midland	19 1/8	28%
Boeing	47	57
Caterpillar	51 3/4	32
Compaq Computer	39	27
FMC	57	21
Hewlett-Packard	92 5/8	56
McDonnell Douglas	144 1/4	62
Motorola	53 7/8	29

As a per cent of total sales.
Source: Forbes.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	-1.2%	-5.7%	-9.5%
S&P/Barra Growth index	-1.3	-0.2	-5.5
S&P/Barra Value index ²	-0.5	-3.0	-8.0
Dow Jones industrials	0.3	-1.2	-7.4
S&P 500	-1.0	-4.0	-7.6
NYSE	-1.0	-5.1	-8.9
Nasdaq	-2.4	-5.6	-10.5
Amex	-2.2	-9.5	-13.3
EAFE ³	-0.7	5.3	-6.6
CRB futures index ^{4,5}	-0.4	2.9	-9.3
Gold ⁵ (Comex spot)	-2.1	-1.6	-10.8
Yen ⁶ (per \$US)	2.0	-7.5	-37.4
Oil ⁵ (W Texas Intermediate)	-5.8	16.7	-58.4

The best and worst performing stocks

Best	Price	2-week change	1995 EPS ⁶	Worst	Price	2-week change	1995 EPS ⁶
Continental	18 3/4	35%	\$ 1.16	LaserMaster Technologies	6 1/2	-50%	\$ 0.95
Cell Genesys	8 1/2	27	-1.54	RG Barry	11	-42	1.30
CopyTele	7	23	NA	Continental Airlines	8 7/8	-41	1.03
TSX	19 1/4	22	NA	Johnstown America Inds	11 3/4	-38	1.98
Am Savings of Florida	19 1/2	21	1.80	Musicland Stores	9 3/4	-32	1.40

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/93	Worst	2-week change	Since 12/31/93
Paper	4.1%	13.0%	Tobacco	-9.2%	-7.5%
Iron & steel	4.1	0.2	Oilfield services	-7.5	-24.4
Metal mining	3.9	3.3	Air transport	-5.9	-36.2
Aerospace	3.8	-2.0	Photographic, optical	-5.7	-16.6
Liquor	3.7	10.0	Water transport	-5.3	-12.6

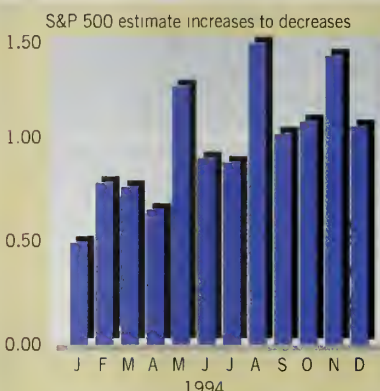
Note: Data for period ending 12/8/94. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Source: Knight-Ridder Financial Publishing. ⁶ Estimate: IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

S&P 500 P/E* vs. Aaa bonds†



*P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months.
†Actual and projected price-to-coupon ratio for Moody's Aaa corporate bond index.

IBES estimate revisions index



Forecasting the S&P 500

Year	Estimated P/E	% change current est vs. 3 months ago	Expected year-to-year EPS growth
1994	14.3	-0.1%	17%
1995	12.1	0.9	19
1996	10.5	NA	15

1995 estimates for IBES industry groups

Rising estimates

nonferrous metals
containers
forest products
computer mfg
chemicals



Falling estimates

airlines
home building
savings & loans
trucking
apparel



Security analysts typically respond to a sinking stock market by slashing their earnings forecasts. With the stock market taking on water fast, what are the analysts doing now? They are acting out of character and raising estimates, according to Richard Pucci, a senior vice president at New York-based IBES, Inc., a firm that tabulates estimates on over 4,500 U.S. companies.

Here's what analysts are forecasting for the Standard & Poor's 500: profits of \$37.59 per share in 1995, a 19% gain over 1994. In mid-July the analysts expected only \$36.74

per share. (Since analysts can't anticipate corporate write-offs, these estimates are made for continuing operations.)

Industries about which the analysts are especially bullish for 1995 include integrated petroleum, chemicals, forest products, metals and automotive. For the auto industry, the analysts now predict a 26% jump in earnings in 1995. GM, Ford and Chrysler are expected to earn \$8.00, \$5.42 and \$10.41 a share, respectively. If the analysts are correct, the market's recent setback has provided some good buying opportunities.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1994 est EPS	1995 EPS estimate recent	3-month change	P/E	3-month price change	Reason
Boise Cascade/forest prods	\$-2.68	\$1.47	137%	16	-16%	Higher prices for most paperboard grades
Champion Intl/paper prods	-0.23	2.39	125	15	-2	Strong pulp and paper demand
Stone Container/packaging	-2.00	1.20	103	14	-20	Increasing containerboard sales
Lyondell Petrochemical/chemicals	2.42	3.85	64	7	-20	Rising methanol demand
Georgia Gulf/chemicals	2.75	4.99	52	7	-3	Stronger prices for caustic soda and methanol

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1994 est EPS	1995 EPS estimate recent	3-month change	P/E	3-month price change	Reason
Starter/athletic apparel	\$0.38	\$0.55	-41%	13	-27%	Negative impact of baseball and hockey strikes
Parker & Parsley Petrol/oil & gas	0.04	0.73	-39	28	-22	Falling oil prices
Seagull Energy/natural gas	0.30	0.63	-34	31	-22	Weak natural gas demand
Pennzoil/oil	1.17	1.56	-31	29	-10	Falling oil prices
No American Mtge/mortgage banking	0.50	1.67	-27	9	-54	Falling loan production

Note: Listed companies have a market capitalization of \$100 million or more. Earnings projections are Wall Street consensus estimates from 3,000 security analysts compiled by IBES, Inc. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not applicable.

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Can you get those racy emerging market returns without taking all the risk involved? In T. Rowe Price International Stock Fund you can.

Smoothing the ride

By Mary Beth Grover

EMERGING MARKETS (formerly the "Third World") are the rage. Places like Argentina, Brazil, Hong Kong, Singapore and Turkey have become the last best hope of investors desperate for double-digit returns. Financial Research Corp. of Chicago did some counting. It found 62 emerging market funds last year raking in \$11 billion from investors.

It's a rough ride, goes the standard pitch, but worth it in the end. In the past three years the Barings index of 21 emerging markets, including Hong Kong and Singapore, returned 20.7% compounded annually (in dollars). Before you call your broker, however, ponder this: Hidden in that average are two stomach-turning drops of at least 16%, the more recent from last February through early May.

"Emerging market funds have become high fashion," says Martin Wade, 51, who oversees ten foreign

funds for Baltimore's T. Rowe Price Associates. "It's worrisome that a lot of these buyers are very new to international investing. If they can truly play a ten-year game, that's fine, but many can't."

Wade ought to know. Last March chicken-hearted clients yanked \$145 million out of his trendy T. Rowe Price New Asia Fund as it ended the first quarter down a nauseating 20%.

Wade runs T. Rowe Price International Stock Fund as a refuge for those who want a piece of the emerging market game but with some of the thrills removed: By balancing the bouncy emerging markets with the smoother economies of Europe and Japan, he has achieved emerging market-like returns with lower risk. Over the past ten years the fund scored a compound annual return of 18.7%. That was a hair higher than Morgan Stanley Capital International's index



T. Rowe Price's Martin Wade
How to survive a 16% crash.

of European, Australian and Far Eastern stocks—making Wade's the top foreign fund over the period.

How does Wade ride emerging markets? First of all, by diversifying; he currently holds 60 stocks from 11 emerging markets. Rule two: Stick to such blue chips as utilities and construction firms. "It may not be sexy or exciting," says Wade, "but if the market crashes, you can get out." Rule three: Keep portfolio turnover low, around 25%, because these markets tend to be thin and spreads high. "If you time the markets wrong, the trading costs in emerging markets will eat you alive," he says.

These days Wade has only 28% of International Stock's assets in emerging markets. While he is optimistic in the long term, Wade is worried about high price/earnings ratios and rising interest rates. "Until we see what happens to interest rates in the world's largest market [the U.S.], he says, "we're not going to see much progress in these markets."

He thinks Southeast Asia, the darling of many U.S. investors, is vulnerable because of its ties to the dollar and to U.S. markets: "Between trading and currency links, [Asian] monetary policy is almost controlled in D.C." In 1994 Wade halved his stake in Hong Kong to 3% of assets and trimmed Malaysia by a third, to 4%.

Latin America looks better to Wade. He's bullish on Brazil, where monthly inflation is down from 40% to 2%. Wade has tripled his Brazil stake to 3% of assets. Telebras, the partially state-owned telephone company, is half of his Brazilian holdings. It trades at a stiff 28 times this year's

Emerging markets for chickens

Fund	Emerging markets* (% of assets)	3-year annualized return	Assets (\$mil)	Annual expenses per \$100
Warburg Pincus International Equity	49%	16.0%	\$1,402	\$1.34
USAA Investment International	33	16.1	293	1.31
T Rowe Price International Stock	28	13.3	5,953	0.97
Schroder International Equity	28	13.7	479	1.03
Managers International Equity	26	17.0	88	1.45
Babson-Stewart Ivory International	26	13.2	54	1.32
Morgan Stanley EAFE Index		9.5		
Forbes Foreign Stock Fund Composite		13.1		1.57

*Includes Hong Kong and Singapore.
Sources: Morningstar, Inc.; Forbes

These foreign funds temper emerging market volatility with developed market stability. All have at least 15% of assets in emerging markets. Expenses are below average and none carry sales charges.

estimated earnings, but Wade expects profits to be up 50% next year. Other Brazilian holdings include utility Electrobras, steel company Usiminas and retailer Lojas Americanas.

In Argentina, Wade thinks oil company YPF is a buy at 14 times this year's expected earnings. Thanks to increasing demand for oil—particularly from the Latin and Asian markets—Wade expects earnings to rise 30% next year.

How is he smoothing out the bumpy Latin ride? At 22% of assets (a low weighting in a foreign fund) Japan provides lots of liquidity, although Wade grimaces at its valuation of 74 times next year's earnings. His

"If [buyers] can play a ten-year game, that's fine, but many can't."

real shock absorber is Europe, where he has 48% of the fund's assets, one-third more than usual for a foreign fund. Two favorites are Dutch publishers Wolters Kluwer and Elsevier, which should do well as economies recover. Both trade at about 20 times 1994 earnings, in line with their projected growth rates for next year. Wade thinks German pharmaceutical giant Bayer is a buy at 12 times 1994 earnings; he expects profits to be up 16% next year.

Such stocks are "not screamingly cheap," says Wade, a low-key Englishman who studied biochemistry and law at Cambridge, "but attractive."

For those who want to test the international waters without heavy risks, his fund is well worth considering. With annual expenses of 0.97%, more than a third below those of the average foreign fund tracked by FORBES, T. Rowe Price International is a Best Buy (*Aug. 29, 1994*). It is also a member of the Forbes Honor Roll, with low-risk grades of B in both up and down markets.

Other choices for those investors wanting some emerging markets exposure without going all the way are shown in the table (*opposite*). All combine substantial (but not undiluted) emerging market exposure with low expenses, and all are no-load funds.



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If you are fearful of stocks and bonds but not prepared to let your money sit in cash, invest in adjustable mortgages.

What's AAA and beats T bills?

BY DAVID P. GOLDMAN



David P. Goldman is a managing director in Bear, Stearns & Co.'s Financial Analytics & Structured Transactions Group.

DURING THE past several months, I have recommended a diversified mix of junk bonds and emerging market debt as the best way to get a good return from bonds. I stand by that advice. But what if you don't have the stomach for junk or Third World debt? Where, then, can you take best advantage of today's high interest rates? Consider adjustable mortgages. Most people know about adjustable-rate mortgages from the homeowner's point of view. The interest resets against some index or short-term interest rate, such as the rate on one-year Treasury bills. Usually the maximum rate a homeowner might pay is capped at some level.

Right now people with adjustable-rate mortgages are bracing for a wave of hikes in their monthly mortgage payments. But this is good news for the folks who hold such mortgages. They are almost as safe as one-year T bills, but they pay better.

Three important federally chartered companies package adjustable-rate mortgages into pools: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corp. (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae). The pools are rated AAA, meaning that the risk of loss from homeowner defaults is close to zero.

Mortgage securities are subject to state income tax, which Treasury securities are not. But, depending on where you live and whether you are investing through an IRA, taxes may not bother you.

Many adjustable-rate mortgage passthroughs now offer bond-equivalent yields equal to those of 30-year Treasury bonds but with far less rate risk. That's because if rates run up further, so will the interest paid on the mortgages.

These adjustable mortgage securities come in a bewildering variety of flavors, but the best choice is a plain-vanilla variety, namely "constant reset" ARMs, whose rate adjusts each year to the 12-month Treasury bill rate. One Freddie Mac ARM passthrough was priced at 101½¢ to yield

You can get an ARM passthrough with an 8% yield and less rate risk than on an 8% long bond.

about 8% as of Dec. 1, slightly more than a 30-year Treasury—and, as I said, with less exposure to further rises in interest rates.

The 8% reflects the average rate to be paid by the thousands of individual homeowners in the pool as their mortgage rates adjust up and down.

Each homeowner's rate changes once a year, but part of the pool resets every month, gradually changing the passthrough's coupon. The 8%, by the way, is a "bond-equivalent" yield, meaning that the monthly interest compounds to the same effective annual return you would get on an 8% bond paying interest only twice a year.

Constant reset adjustable-rate mortgages are an ideal defensive investment when rates are rising. Their interest sensitivity is close to that of a two-year Treasury note. If interest rates rise 1 percentage point across the board, for example, a pool of constant reset adjustable mortgages would lose about 2 points. A 30-year Treasury bond with the same yield, though, would lose 12 points.

In return for greater safety, ARM investors give up the chance to make a killing if rates fall. If rates fall across the board, the ARMs will reset down to a lower yield. So think of these as a safe way to earn high interest, not as a speculation on a fall in rates. If rates fall only at the long end of the spectrum, homeowners will prepay their adjustable mortgages and switch into cheaper fixed-rate mortgages, leaving holders with cash to reinvest at lower interest rates.

There is some risk. In the event that short-term interest rates rise above 9%, most of these securities will bump into the cap, limiting the interest rate homeowners have to pay. In that case the ARM pool you bought near par could fall to 95 or even 90.

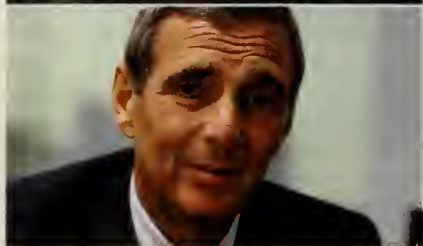
But it is unlikely this will happen. I think short-term rates will rise by at most another 1%, as the Fed flattens the yield curve to wring inflation expectations out of the market. Long-term rates will probably remain high. That's an ideal environment for adjustable-rate mortgages that adjust to the short-term rate. Their prices would rise while three- to ten-year Treasuries are falling.

You can buy adjustable-rate mortgage passthroughs from a broker, in minimum denominations of \$25,000. Shop carefully—brokers' markups vary. Because transaction costs are high, it doesn't make sense to own one of these things if you might need to cash it in quickly. If you need liquidity, stick to a mutual fund specializing in ARM passthroughs.

Based on selective evidence, Wall Street has passed a bearish verdict on bank stocks. The verdict is bound to be reversed.

Kangaroo court

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New Jersey, and author of *The New Contrarian Investment Strategy*.

THE STREET'S jury has rendered its verdict—finance stocks are dogs. The worst mutts are the banks and brokerage issues that deal in derivatives. Bankers Trust, Morgan Stanley and other banks and brokerage houses dealing in the dreaded "Ds" are off 30% or more from their 1994 highs.

Along with the "D" factor, the "G" factor—Greenspan's interest rate hikes—has hit the whole banking group. Many of these stocks are now trading at levels not seen since the financial panic of 1990.

Is The Street's verdict justified? No. Wall Street is a kind of kangaroo court that, instead of weighing all the evidence, selects certain bits, in this case the worst bits. In my view, this creates a considerable buying opportunity for the value investor.

No question: The bits of evidence the court has focused on do look damaging. Increasing interest rates will hurt profit margins. Some banks have been caught flat-footed. They fixed rates on a portion of their investment portfolio several years out and now have to pay up on CDs and deposits. But these negatives have been overdiscounted in the prices.

Take PNC (20). It is a leading regional, headquartered in Pittsburgh,

that has dropped 35% from its 12-month high. Analysts have cut 1995 estimates on the bank from \$3.25 per share to \$2.80 because of the margin pressure brought about by the bank's borrowing short and investing longer. At worst it will impact earnings for the balance of the year with the strong likelihood of higher profits again in 1996. Even at this reduced estimate, the stock is at a multiple of only 7 on 1995's forecast and yields 6.7% (the highest among the major regionals). Many banks now trade at P/Es of 7, 8 or 9—30% or 40% lower than when the Great Bull Market began in 1982.

Not factored into the guilty charge against the banks is that the booming economy is likely to result in a major buildup of higher-margin commer-

cial loans, which should reduce the pressure on profits. Also overlooked is the lag in raising rates on deposits and CDs, which further lessens margin pressure. Finally, although panic is currently rampant in this group, profits have continued to move ahead briskly. Rising rates or no, the 50 largest banks together reported a 13% increase in profits for the first nine months of 1994.

Bankers Trust (57) is rapidly winning the dubious distinction of being one of The Street's least-loved stocks because of its normally large contribution to earnings from derivatives and trading. In spite of the fact that these profit centers still contributed to earnings—a fact few of the major

hedge funds can boast—BT was down 35% last year. Moreover, although 1994 earnings will be about one-third lower than 1993's, they should still come in at near \$8 per share. Not a bad performance in a horrible year for these markets. BT trades at a P/E of 6 and yields 6.3%.

Key Corp. (24) is another major regional bank holding company that has been knocked down sharply in the current free fall. Key trades at a P/E of 7, yielding 5.3%.

Then there is venerable J.P. Morgan (58), down almost 30% from its 12-month high. This premium bank has a smaller dependence on derivatives and trading profits than Bankers. Morgan trades at a price/earnings multiple of 8 and yields 4.7%.

Wall Street is a kind of kangaroo court; instead of weighing all the evidence, it selects certain bits.

Banks are not the only chief financial stocks: Most of this sector is now trading at near giveaway prices.

Here are two other financials to look at:

Bear Stearns (16), a major broker, is currently experiencing the double whammy of reduced trading and lower investment banking revenues. Earnings in the current fiscal year (ending June 30) are likely to be halved from 1994. Even so, with better prospects ahead, the stock appears cheap at a P/E of 6 and a yield of 3.8%.

Life insurance has been the hardest hit group in the financial sector, down 19% near year-end 1994. *American General* (27) is a major provider of retirement annuities and other life-related products. The company looks good at current prices, trading at a P/E of 19 and yielding 4.2%.

Will you stick with a favorite stock—and maybe buy more—if it drops by half after you first buy it? If you can't, says Warren Buffett, you shouldn't be in the stock market.

Tough advice

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors the performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

A NEW BOOK analyzing how Warren Buffett got to the top of the FORBES list of richest Americans is selling briskly. It is called *The Warren Buffett Way*, by Robert Hagstrom Jr. (John Wiley & Sons, \$24.95).

I suspect many of the buyers are looking for a *Money* magazine-type primer on how to pick stocks. They will be disappointed. It is an impressive book, but the investment methods it propounds are well beyond the attention span of nearly all investors. According to Hagstrom, Buffett "would not care if the stock market closed for ten years." He means he doesn't need the daily chills and thrills that most investors seek from the stock market.

Buffett is more interested in the "magic" of compounding over the long term than in looking for stocks that will double within a year. A lot of investors are looking for stocks that will double or more fairly quickly and soon lose interest if they don't. Buffett goes for steady, rather than spectacular, gains. Since 1965 the book value of Buffett's holding company—Berkshire Hathaway—has grown at a 23.3% compound annual rate. Con-

sider this: \$1,000 compounded at that rate for 30 years becomes \$535,664. Now you know how Warren Buffett climbed to the top of the FORBES list.

The best-performing investment letter among those followed by the *Hulbert Financial Digest*—the *Value Line Investment Survey*—can't match that, but it has also done pretty darned well, producing an annualized return of 18.3% since 1980. Keep those numbers in mind the next time you see advertisements claiming returns in excess of 100%.

Buffett's and *Value Line*'s returns are among the very best, but both demand a patience and discipline that few investors can achieve. Do you get antsy if you buy a stock and six months later it still hasn't moved? You are no Warren Buffett.

Another important lesson from the

It's no surprise that there are no investment letters that use Buffett-like techniques.

book—and, again, one that few people will follow—is this: Success depends on investing in companies that resist what Buffett calls the "institutional imperative." By this he means the "mindless imitation of their peers" that dooms most corporate managers to mediocrity, if not worse. Hagstrom explains: "If companies A, B and C are behaving in a similar manner, then, reasons the CEO of company D, it must be all right for our company to behave the same way."

But even if you learn to scorn fashion and search for value, there's a catch, according to Buffett: You must harden yourself against those under-

standably compulsive impulses to sell good stocks during panics. I guess that's why he says he wouldn't much care if they shut the place down for ten years; it would lessen the urge to run. Hagstrom: "Buffett believes that unless you can watch your stock holdings decline by 50% without becoming panic-stricken, you should not be in the stock market."

Funny, isn't it? Hundreds of thousands, maybe millions of investors will buy this book and many of them will read it. But almost none of them will learn much from it.

It's no surprise, therefore, that there are no investment letters that follow Buffett's techniques exactly. Buffett has made major commitments in about a dozen stocks over the last two decades. You couldn't retain many subscribers with a letter that always carried the same message: Ignore last week's big decline (or rally). Stay with the same stocks. Have a good week.

The closest resemblance in the market letter business to a Buffett strategy is Charles Allmon's *Growth Stock Outlook*. Allmon's model portfolio has been predominantly in cash since 1986 because few stocks meet his stringent value criteria. Despite missing out on some 1,500 points on the DJI, Allmon's long-term record is now in second place (after adjusting for his low risk) among all the letters I follow. Nevertheless, Allmon's principled do-nothingness has cost him loads of subscribers.

Among mutual funds, there's just one that comes close to Buffett's strategy: Sequoia fund, run by his friends Bill Ruane and Rick Cuniff. Sequoia is closed to new investors. You can squeeze in if you can find a current shareholder willing to transfer a few shares to you. Once you are registered on Sequoia's books, you can purchase as many more shares as you want at net asset value.

Of course, you could purchase shares of Buffett's holding company itself, Berkshire Hathaway. The catch: One share costs around \$20,000. More cheaply, you could approximate Berkshire's portfolio by buying the stocks owned by Berkshire. The largest holdings: Coca-Cola (recent price, 50), Geico (49), Gillette (73) and Capital Cities/ABC (79). ■

Long term, the case for bonds is bullish.
Short term, the trend is likely to remain bearish.

Not yet

BY A. GARY SHILLING



A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

NOW THAT LONG Treasury yields are in the 8% area, are bonds screaming buys? The Treasurer of Orange County thought so when he doubled his bets on Treasuries just ahead of the Fed's latest boost in interest rates. And we all know what happened to Robert L. Citron.

My advice is: Don't rush to buy bonds. With Orange County's huge and disastrous leveraged position in government securities fully exposed,

you have the prospect of another nasty nosedive in bond prices.

Note also that the Consumer Price Index may well accelerate to 4%-to-5% inflation rates, as business capacity and labor shortages grow. The economy is strong: GDP growth last quarter was revised up to 3.9%. But that is much faster than the rise in the economy's potential, so strains are multiplying. If inflation jumps to a 5% rate, an 8% yield won't be nearly as attractive as it now appears with 3% inflation.

Mind you, I'm not forecasting big inflation. The credit authorities have no intention of allowing American business to relapse into an "easy cost passthrough" mindset—much less a 1970s style wage-price spiral. The Fed is ready to tighten again and again to prevent it. The Fed's determination, not a fear of runaway inflation, is key to my bearishness on bonds.

Also, after the 20% nosedive in long Treasury prices this year, a yield of 8% is much less appealing than 8% was several years ago, when bond prices were steadily rising. And the cost of carrying bonds rises as the Fed pushes

Credit restraint always continues until the yield curve flattens, that is, until short rates equal or exceed long rates. The Fed funds rate has risen 250 basis points since February. It must leap another 250 basis points to equal the current 8% long bond yield, more if yields on long Treasuries also rise, as is likely.

My educated guess is that the next recession will begin around mid-1995. As in the past, the Fed will squeeze until the business slump has begun or is about to start. This is another reason bond prices will not rally at least until the spring.

When the rally comes, it should be a strong one. I believe that the globe's major economies are in a Kondratieff wave depression, the final decade of a 50- to 60-year cycle. In the current decade, a lot of earlier strength is missing. Military spending is falling, consumer debt is in nosebleed territory, restructuring and major layoffs continue, and structures are overbuilt. All exert a dampening influence on the economy.

In this climate, you might agree with most economists that business may cool enough to keep the Fed at bay and prolong the expansion for several more years, but I doubt it. Indeed, the U.S. boom, augmented by recovery in Europe, stubborn and wide-spread government deficits and Newly Industrialized Country strength is pushing up global credit demands and borrowing costs.

Which leaves me short-term bullish on the economy and thus short-term bearish on bonds. Watch last-minute Christmas spending and commodity prices. If both are strong, as I expect, and if the Orange County mess continues to widen, lower bond prices are ahead. There's another big bond rally coming, but not until the current business expansion succumbs to tight credit or financial crises. The time is not yet. Hold your fire.

Credit restraint always continues until the yield curve flattens. For all the Fed's tightening, the curve remains quite steep.

you can bet that other municipalities with similar problems will rush to unload. Pressure will be increased by brokerage firms demanding more margin on these leveraged positions, and selling out if they don't get it immediately.

Orange County's troubles are spilling into the municipal bond market as investors start to worry about more bankruptcies by local governments. Add to that, steady selling of Treasuries by banks to meet loan demand and continuing Fed tightening, and

up short rates.

The Fed has tightened credit substantially nine times since the mid-1950s. Only at the end of these periods did bond prices rally—and we are, as I have said, not yet at a point where the Fed can stop tightening. When it does, there will still be time to buy bonds. The bond rallies occurred from two months ahead to three months after the peak of Fed-controlled short rates. My guess is that we are, at the very least, six months away from a peak in rates.

China appears to be at a dangerous point in a boom-bust cycle. This is not a good time to invest there.

Dancing on a volcano

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at the Johns Hopkins University in Baltimore.

IS THE CHINESE economic boom resting?

While the countries of Eastern Europe and republics of the former Soviet Union have stumbled toward capitalism, China has proceeded briskly in that direction. Western investors have responded enthusiastically. In the past few years China has attracted 30% of the direct foreign investment flowing to developing countries.

But there have been worrisome signs in China recently. Earlier this year Gordon Wu, one of Hong Kong's shrewdest tycoons, mothballed plans to build and manage power stations in China. Instead, he signed agreements for similar investments worth \$19.5 billion in India and Pakistan.

Then, in November, the Chinese gave us an idea of what they think about the inviolability of contracts and property rights: 31 foreign banks announced they were stuck with \$600 million in Chinese dud loans and Lehman Brothers filed writs in a New York court against three Chinese trading companies that it claims have defaulted on \$100 million in foreign exchange and swap contracts.

Most recently, McDonald's, the

fast-food chain, was hit with an eviction notice from Beijing's municipal government. Apparently, the 20-year land-use agreement for the site of the world's largest hamburger joint has been shredded.

As troubling as these signs might be, the potential for an inflationary eruption poses a more imminent danger. China's consumer price index is rising at a rate of over 25% on a year-over-year basis. This spells trouble. Doubtters should recall that it was spectacular inflation that brought on social chaos in the 1940s, helping to sweep the Communist Party into power in 1949. It was also an outbreak of inflation that led to the 1989 prodemocracy protests in Beijing.

A lot of the inflation problem arises because the Chinese government attempts to peg its currency to the U.S. dollar. As I pointed out in my last column (*FORBES*, Dec. 19, 1994), pegged rates inevitably create boom-bust cycles. China is in the boom phase. The bust phase can't be far behind.

During the boom phase, a balance-of-payments surplus occurs and too much foreign currency is offered for domestic currency at the pegged rate. To prevent an appreciation in the domestic currency, the central bank must purchase foreign exchange and accumulate reserves.

True to form, China's foreign reserves have increased by 65% over the past year. When it is flush with foreign reserves, China's central bank allows commercial banks to expand credit. And this they have done, making loans to the money-losing state-owned enterprises that still infest the landscape. This causes an acceleration in money growth and increases domestic demand for

goods and services. As more imports are sucked in, the balance of payments deteriorates. And as inflation picks up, exports become less competitive at the pegged exchange rate, causing a further deterioration in the balance of payments.

Finally, the net surplus of foreign currency on the local market turns into a deficit. Then, to hold the peg, the central bank must reverse its intervention procedure, purchasing domestic currency and selling foreign currency. As the central bank's foreign reserves dwindle, it forces the commercial banks to cut back on their lending, and monetary growth decelerates. The result is a slump. Such are the ways of a typical boom-bust cycle under a pegged regime.

Moderating such a cycle within a pegged exchange rate system is almost impossible. In the autumn of 1993 Vice Premier Zhu announced a

Despite a 20-year land-use agreement, McDonald's was hit with an eviction notice from Beijing's municipal government.

16-point program to restrain inflation. Until May this program produced some monetary restraint, but since then it appears that officials have thrown in the towel. Wu Xiaoling, one of Vice Premier Zhu's top advisers, recently put it this way: "As long as inflation is under government control, it doesn't matter if it's high or low."

If that kind of complacency prevails, China can look forward to more inflation now and a very hard landing later. That painful landing, which probably will occur in late 1995 or early 1996, will be accompanied by a decline in living standards, a reimposition of austerity measures and probably the introduction of import and broad credit controls.

In dollar terms, the equity markets in China and Hong Kong already have fallen hard, losing about 45% and 28%, respectively, over the past year. Investors should wait for the Chinese volcano to erupt. There will be a better time to invest than now.

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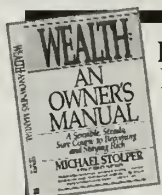
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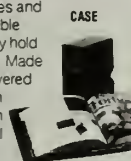
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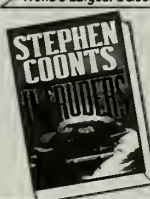
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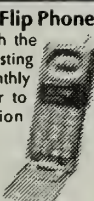
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NUI CORP. distributes gas to 320,000 customers through its Elizabethtown Gas (New Jersey) and City Gas (Florida) divisions. The \$392 million (sales), Bedminster, N.J.-based company has also been the worst-performing stock among gas distributors over the past month, down 20% to a recent 14 on the NYSE. Yield, 6.5%.

Why did the stock fall so? In October, NUI cut its dividend 44%, from \$1.60 to 90 cents, to prepare for the impact of deregulation and increased competition and to bring its payout ratio into line. For the fiscal year ended last Sept. 30, NUI earned \$1.25 a share, down 26%.

But at NUI's current levels, Dean Witter Reynolds natural gas analyst Foster Corwith says the stock is better bought than sold. He thinks NUI has good long-term growth prospects, and it just got rate relief in Florida.

NUI trades for 10 times the \$1.40 a share Corwith expects it to earn this year, versus an average 12.5 times for the gas distribution group. The stock also trades at a discount to its nearly \$15-a-share book value; 1.4 to 1.5 times book is typical for its industry.

Corwith's 12-month price target for NUI stock is 18; potential total return, in excess of 30%.

Cheer up, Edgar

SEAGRAM CO. LTD.'S Edgar Bronfman Jr. won't be sending warm holiday wishes to Time Warner boss Gerald Levin this year. Seagram owns 14.9% of Time Warner's 379 million common shares, at an average cost of around \$39 a share. On Levin's watch, the stock sank over 25% in 1994, to a recent 32¼. That leaves Bronfman holding a paper loss of \$400 million.

This is a good time for people without any Time Warner to add some to their portfolios, say Frederick Moran and Vijay Jayant, communications and media analysts at Salomon Brothers. They argue that The Street values Time Warner too much as a cable company, and so penalizes it too much for the cable rate rollbacks ordered last year by the FCC's Luddites.

The Solly analysts don't dispute cable's importance to Time Warner. But by focusing on cable, says Moran,



Warner hit "Interview with the Vampire"
Investors out for blood have it wrong.

investors overlook its other entertainment and publishing businesses, including its \$5 billion of nonconsolidated assets. Among those assets are 20% of Turner Broadcasting System, 15% of QVC, 55% of Courtroom Television Network, and much more.

Moran and Jayant performed an interesting exercise. They added Time Warner's proportionate share of the likely 1995 cash flow from these nonconsolidated holdings to the cash flow from the company's own operations. Result: The stock sells for just 8 times their estimate of what that collective cash flow will be this year. Compare that to the 11 times projected cash flow at which Viacom, with its diverse interests, trades.

The Solly analysts think Time Warner should sell for closer to 10 times aggregate cash flow. They see the stock at 44 over the next year. Cheer up, Edgar.

—RIVA ATLAS

Utiliturkeys

HERE ARE six utility stocks *not* to stuff into your Christmas stocking, says Duff & Phelps analyst Nathan Partain:

Centerior Energy (8% on the NYSE). The stock yields a very high 9.3%, and for good reason. Partain says there's no chance of dividend growth; he expects a sharp earnings decline in 1996. Centerior is highly leveraged; it also has high costs and a high price schedule.

Pennsylvania Power & Light (19%). It yields 8.5% and faces down earnings this year; the payout is already 80%. The rate case PPL is expected to file in 1995 will be a political hot

potato. It also must spend heavily to comply with the Clean Air Act.

Long Island Lighting (15%). Don't fall for Lilco's 11.4% yield, warns Partain. That payout's over 80% for a company whose revenue growth will at best be below average. It has over \$6 billion in regulatory assets, and a New York State takeover proposed by Mario Cuomo won't be backed by Governor-elect Pataki.

Potomac Electric Power (19½; yield 8.7%). Partain at best sees flat earnings for the next few years. The payout is 92%; no chance for dividend growth. Nonutility profits are subpar, due to large aircraft leasing exposure.

Minnesota Power & Light (25½; yield, 7.9%). Given the current 106% payout ratio, there's lots of uncertainty about a dividend increase this year. Despite improvement from cyclical industries like paper, Partain expects minimal sales growth. Investment portfolio gains aren't likely to match previous years. Water revenues won't offset the decline in retail operations.

Commonwealth Energy (35¼; yield, 8.4%). A volatile revenue and earnings outlook casts doubt on the Boston utility's future dividend growth. This year's earnings will be hurt by the loss of its largest customer, MIT, to cogeneration. Industry precedents, says Partain, suggest Commonwealth will have minimal success in MIT cost recovery efforts.

The room below

WHEN Marshall Reynolds took control of the First National Bank of Huntington, W.Va., he turned a tiny local bank into Key Centurion Bancshares, his state's largest bank holding company, and then sold out to Banc One in 1992 for a handsome premium. Now investors are betting he can do the same with Huntington's \$39 million (fiscal 1994 sales) Champion Industries, Inc., a commercial printing and office supplies outfit.

In January 1993 Reynolds spun off Champion from a private company he controls, selling 1.4 million shares (split-adjusted) to the public at \$8 each. Its 4 million o-t-c-shares have since trebled, to a recent 24. Reynolds' 61% is worth nearly \$60 million.

Trouble is, Champion stock sells for 2½ times sales and a rich 36 times

cal 1994 (ended Oct. 31) earnings of \$2.7 million, or 67 cents a share. This is at a time when the company may be riding for a fall. It has been growing mainly through acquisitions—eight in two years. But revenues from continuing operations in its core printing business have not grown so well. And paper price increases could put a crimp in the printing division's historically high operating margins. Don't chase Champion. It could tumble. —CHRISTOPHER PALMERI

Orange County victim

LAST WINTER Chicago Corp. analyst Steven Schwartz recommended the stock of Ambac Inc., the big municipal bond insurer (Streetwalker, Feb. 4, 1993). Weren't interest rates rising, threatening to dry up refinancing? Yes, but he thought Ambac was oversold and predicted the stock, then 41½, would hit 55 in a year. Bad call. Rates went higher, keeping Ambac under pressure. Then came the Orange County fiasco. Ambac's recent price: 32½. What's Schwartz say now? Average down: it's even a better buy than a year ago.

Schwartz says Ambac doesn't expect to incur losses on Orange County bonds or on those issued by others in its investment pool. Its exposure in Orange County paper is \$17 million a year of debt service; Ambac's loss reserve is \$68 million. Besides, the Ambac-insured bonds are collateralized mainly by the county's sewers and a profitable convention center. It's not clear what Ambac could do with the sewers, but it could seize and try to sell the convention center.

Schwartz says that in the wake of Orange County's debacle, demand for municipal bond insurance will rise, and premiums strengthen. Hence his opinion that Ambac's a bargain stock. Streetwalker would be more cautious, based on our hunch that investors will steer clear of Ambac for several months. Risk exposure analogous to the Orange County situation may surface elsewhere. Plus there's the prospect of more rate increases by the Fed. Investors who took Schwartz's advice a year ago might look to Ambac for some year-end capital losses. As for getting back in or establishing a position, no hurry. ■

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(FROM THE ISSUE OF JAN. 1, 1925)

A happy New Year should be the lot of America—if we deserve it. Providence has dealt generously with us as a nation, and if we exercise prudence we should enjoy great prosperity during 1925."

Immigration into the U.S. has more than doubled since 1922. The total increased from 309,556 in 1922 to 522,919 in 1923, and 707,896 in 1924. The principal racial stocks represented in the immigrants in 1924 were German, English, Mexican, Scotch, Italian, Hebrew, Scandinavian, Polish and African."

60 years ago

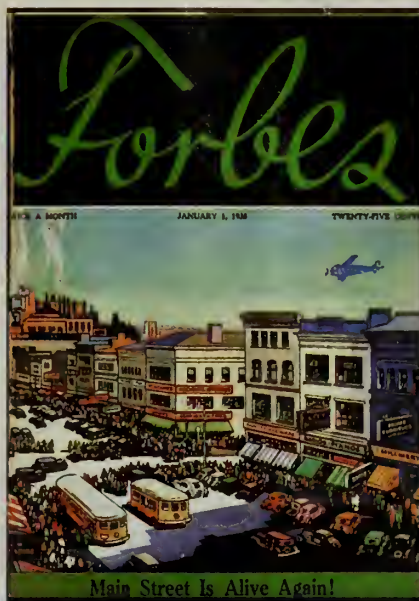
(FROM THE ISSUE OF JAN. 1, 1935)



DR's first-term running mate, Vice President John Nance Garner of Texas.

The preponderating disposition in the business, industrial and investment world is one of hopefulness. . . . *provided Washington acts rationally*, America is all set to move towards a new era of prosperity. . . ."

No official reply has been forthcoming to the offer of Commonwealth & Southern's president (Wenell Willkie) to furnish Tennessee Valley consumers with current at even lower rates than TVA proposes, if granted privileges similar to those granted TVA."



FORBES' Jan. 1, 1935 cover pictured recovery on a small-town Main Street.

50 years ago

(FROM THE ISSUE OF JAN. 1, 1945)

"Slaughter on the Western Front is harrowing, horrifying. What our boys are suffering there has been brought home to me very directly, poignantly. Letters from one of my sons [Malcolm Forbes] who took part in what Berlin called 'the worst battle ever fought in any war,' in the Aachen area, have described the awful conditions there: knee-deep mud, rain, cold, never a dry stitch, sleeping in the open, gunfire raging day and night. Wounded, he writes: 'Pray for my buddies who are still out there.'"

"It is increasingly evident that defeats of Germany and Japan will bring in their wake a host of problems almost as formidable and far-reaching as the war itself. . . . The outlook will be shaped in the first instance by the rate of progress on the distant battlefronts, but also will be heavily influ-



Republic Aviation hoped to sell this postwar amphibian for under \$4,000.

enced by what kind of people get the reins of control in the hodgepodge of a liberated Europe. . . ."

25 years ago

(FROM THE ISSUE OF JAN. 1, 1970)

"It's the darndest forecasting situation I've ever observed. Many see problems ahead—for the other guy. Most see the possibility of a 'valley' in the months ahead. But almost everyone sees across the valley, if he sees one at all, and is planning and budgeting and spending accordingly."

—Malcolm Forbes

"When Texas Gulf Sulphur hit its rich Timmins (Ontario) zinc, lead, copper and silver find, it was regarded as icing on a rich cake. Now, with sulphur prices way down, TG stockholders can thank Timmins for holding TG's drop in third-quarter earnings to 13%, probably the lowest drop in the industry."

"It used to be that every time one of the economic indicators traced a downward squiggle, the stock market would take a nasty tumble. It works the other way now; if the economic indicators get *strong*, the market turns *weak*. It's a sign of the times. Recessions used to be what the stock market was afraid of. Now inflation is the chief worry—inflation and the economic medicine prescribed to cure it."

10 years ago

(FROM THE ISSUE OF DEC. 31, 1984)

"For decades the auto industry has been using in-house credit corporations—a particularly useful sales tool in recessions—to help finance cars. Now the idea is catching on in the \$6 billion manufactured housing and mobile home industry. Several companies . . . have already set up captive finance firms. . . ."

"It was a great ride while it lasted—for the brokers, that is—but the options boom that began in the 1970s is fizzling out. . . . Volume in individual stock options has declined from its peak of 570,000 contracts traded per day in 1983, to 490,000 through the first nine months of this year. Either the customers have gotten smarter, or they have gotten too poor to afford further losses."

Every time I see an Erie Railroad engine bearing the name of its faithful driver a thrill goes through me, for I know that the man guiding it has won this rare honor by many years of the most loyal and efficient service. Who will argue that only public men and corporation heads are entitled to have their names emblazoned on the scroll of honor?

"All workmen care about is money," you say? Wrong. Workers are made of exactly the same stuff as generals or senators or presidents or governors or industrial leaders. It is just as fitting to honor the worthiest of our wage earners as it is to honor others.

—B.C. FORBES

People in the U.S. used to think that if girls were good at sports their sexuality would be affected. Being feminine meant being a cheerleader, not an athlete. The image of women is changing now. You don't have to be pretty for people to come and see you play.

—MARTINA NAVRATILOVA

Playing snooker gives you firm hands and helps to build up character. It is the ideal recreation for dedicated nuns.

—ARCHBISHOP LUIGI BARBARITO

Ideally, the umpire should have the integrity of a Supreme Court justice, the physical agility of an acrobat, the endurance of Job and the imperturbability of Buddha.

—TIME MAGAZINE

A Text. . .

Each man also to whom God hath given riches and wealth, and hath given him power to eat thereof, and to take his portion, and to rejoice in his labor; this is the gift of God. For he shall not much remember the days of his life; because God answereth him in the joy of his heart.

—ECCLESIASTES 5:19-20

Sent in by John A. Durden,
Raleigh, N.C.

What's your favorite text?

The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

We learn from our mistakes, and the amount we learn is in direct proportion to the amount we suffer from having made the mistakes.

—FOOTBALL COACH TOMMY PROTHRO

Pro football is like nuclear warfare: There are no winners, only survivors.

—FRANK GIFFORD

Most sorts of diversion in men, children and other animals are an imitation of fighting.

—JONATHAN SWIFT

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We have not made cricket and football [soccer] professional because of any astonishing avarice or new vulgarity. We have made them professional because we would have them perfect. We have dedicated men to them as to some god of inhuman excellence. We care more for football than for the fun of playing football.

—G.K. CHESTERTON

Two things only the people anxiously desire, bread and the Circus games.

—JUVENAL

The balls used in top class games are generally smaller than those used in others.

—PAUL FUSSELL

Bullfighting is the only art in which the artist is in danger of death and in which the degree of brilliance in the performance is left to the fighter's honor.

—ERNEST HEMINGWAY

In America, it is sport that is the opiate of the masses.

—RUSSELL BAKER

Rodeoing is about the only sport you can't fix. You'd have to talk to the bulls and horses, and they wouldn't understand you.

—BILL LINDERMAN

When a man wants to murder a tiger he calls it sport; when a tiger wants to murder him, he calls it ferocity.

—GEORGE BERNARD SHAW

I don't think I can take seriously any game that takes less than three days to reach its conclusion.

—TOM STOPPARD

Country fund bargains • Nursing home alternatives • Those sleazy infomercials

January 16, 1995

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Forbes

Sir John Templeton: How to beat the market

Wrong question:
Where is the outlook good?
Right question:
Where is it miserable?

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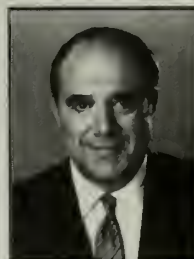
How to Protect Yourself From the New War on the Wealthy

President Clinton's new tax initiatives heavily penalize the "rich", and it's going to get worse.

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WEALTH
PRESERVATION
STRATEGIES
BARRY KAYE

That's why I would like to send you a **FREE** copy of my valuable special report: *12 Wealth Preservation Strategies*. Discover how to reduce your estate tax cost up to 90%*... how to leverage your IRA, pension or annuities 10-20 times...and how to make your key investments income *and* estate tax free.



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If your estate is valued at \$3 million to \$250 million, let me issue this urgent warning:

You are about to see the greatest attack on the wealthy since the Roosevelt era. The battlelines have been drawn. Redistribution of the wealth is the political rhetoric in Washington today. The rich will be penalized heavily to "fund" government programs. For example...

Attack #1: Federal estate taxes will swallow up 50% or more of your net worth.

Federal estate taxes will continue to be a focus for new tax revenues. As I write this article, various trial balloons are being raised, including reduction of the Lifetime Unified Credit (your \$600,000 exemption), a possible increase in the marginal top bracket, and other devastating tax plans.

Today, it's a **FACT**. Your estate will owe Uncle Sam 55% of every dollar over \$3 million (plus \$1,098,000 tax on the initial \$3 million). But in your **FREE** Special Report, I'll reveal how you can fight back and use powerful and often overlooked estate planning strategies to save millions of dollars.

You'll learn how to reduce your estate tax cost by up to 90%*, passing on nearly two times more money to your heirs—*income and estate tax free*.

Attack #2: Your IRA & retirement accounts will be wiped out.

Don't be fooled into believing your retirement accounts will be exempt. A \$1,000,000 IRA will be tragically reduced to a mere \$300,000 after \$350,000 in income taxes and another \$350,000 in estate and excise taxes after death. That's a whopping 70% loss!

But in your **FREE** Special Report, you'll discover a powerful, proven way to leverage your IRA 10 to 20 times, turning that same \$300,000 into \$5 million, *income and estate tax free*.

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As author of *Save A Fortune On Your Estate Taxes* and as Chairman of Wealth Creation Centers, I've seen the tragic consequences of the government's 55% estate tax bite. I also know you *don't* have to stand by and watch taxes destroy everything you've worked a lifetime to achieve.

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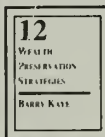


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LINCOLN

What A Luxury Car Should Be

"People are always asking me where is the outlook good, but that's the wrong question. The right question is: Where is the outlook the most miserable?"

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Last year infomercials generated almost \$1 billion in product sales; that figure could grow by 50% a year.

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"Maybe there's a certain amount of cheesiness to the whole thing, but... like it or not, these things sell."

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Gooseberry Patch's owners no longer run their business from a kitchen table, but the customers still think of them as a couple of folksy little ladies.

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Jim Slattery has played host to such high-profile guests as Leona Helmsley and Ivan Boesky, but, no, he's not a hotel man.

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Tambrands invented tampons, but you can't coast forever on a single accomplishment. Can Ed Fogarty get this profitable but stalled company moving again?

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**January 16, 1995
Volume 155
Number 2**

FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office. Subscription rate: \$57 a year.

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Happy New Year—sort of

SORRY IF THIS GETS YOUR YEAR OFF to a bad start, but Sir John Marks Templeton thinks the U.S. is due for a bear market fairly soon. That's what he told our Lawrence Minard last month. Of course, opinions on the stock market are a dime a dozen and any one of us could produce a room full of bulls and a room full of bears right now. But one pays careful attention when John Templeton makes these pronouncements. He has an uncanny way of being right about the big moves.

"The last time I interviewed Templeton, the weather in Nassau was as dark as the mood on Wall Street," Minard recalls. "It was November 1978. We were in the grip of stagflation, the U.S. dollar was held in contempt and the DJI, at 800, was lower than it had been a decade earlier. In spite of all this gloom, in a sense because of it, Templeton predicted that U.S. stocks could treble or quadruple in the next eight years" ("Why common stocks are a girl's best friend," Nov. 17, 1978).

Unlikely as that vision seemed, it was clear and true. Last month, 16-plus years later, Minard revisited Templeton. But while Templeton and his associates are not currently bullish about U.S. markets, they haven't abandoned them altogether. And they see plenty of other opportunities for investors. "Maximum pessimism" begins on page 67 and explains the principles by which this uncommon man invests his own and other people's money.



Rebirth of an old idea

ON READING PETER SAMUEL'S ARTICLE on the revival of toll roads, our house business historian Jason Zweig reminded me that this old way of paying for highways went out of favor in the last century not because it was a bad idea, but because technology doomed the crude highways investors financed. Often paved with planks against the threat of mud and hardly conducive to the comfort of man and beast, they were an improvement over cowpaths but not much else. They eventually were no match for the newfangled railroads in moving people and goods.

Zweig: "There was nothing wrong with joint-stock ownership, but who wanted to bump and sway in a cramped carriage or on horseback when they could get there much faster in much more comfort on an iron horse? But it's unlikely that today's cars and trucks will soon be replaced by some radically new mode of transport, so the only real threat the new toll roads face is the hungry bureaucrat, who might so load the builders and owners with red tape and mandated freebies that private investors will walk away and stick the taxpayer with the job again." "Bringing back the turnpikes" starts on page 57.

James W. Michaels
Editor



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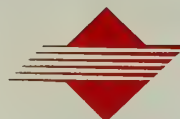
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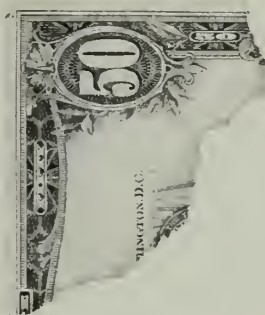


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A photograph of a yellow chicken with a red comb and wattle, standing and looking upwards. The chicken is positioned on the left side of the frame, facing towards the top left. The background is a plain, light-colored surface.

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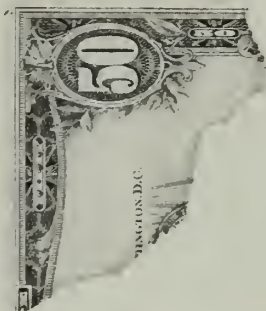
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Turning Japanese

NOT THAT LONG AGO we pointed out how Japan's mighty manufacturers were facing endless frustration trying to carve out niches in the U.S. personal computer market (*Jan. 20, 1992*). That frustration is now rapidly dissipating.

Last year Toshiba overwhelmed all comers in the fastest-growing, highest-margin market segment—notebooks and subnotebooks. As sales of these mobile computers grew 32% in the first nine months of 1994, Toshiba's rose 156%, to 445,000 units, according to Dataquest, a market research firm. That gave Toshiba 18% of the market, by far the leading share. NEC Corp. and Epson made similar percentage gains.

That's just the beginning. Dataquest expects mobile computer sales to grow 26% annually through 1998—well over double the pace for desktop models.

The shift plays right to Japanese makers' strengths, since they're the main suppliers of scarce components like color displays, which are in short supply, even at IBM.

Top Japanese makers also have become more skillful at forging alliances with key U.S. firms. Both NEC and Toshiba, for example, use Intel's Pentium chip in their notebooks. Even the chip's well-publicized troubles are unlikely to affect notebook sales.



Sanford Greenberg
**Swears he's
come clean.**

Bucket shop reborn?

"YOUR ARTICLE was a catalyst for [cleaning up] our firm," Sanford Greenberg said recently of a FORBES story that profiled Chatfield Dean & Co. (*Mar. 30, 1992*). Chatfield had taken over the offices of notorious and defunct Stuart-James, and soon became the nation's largest penny stock brokerage.

Since then Chatfield has lost half its sales force. Regulators have hit the firm and Greenberg with over \$3 million in fines and customer rebates for excessive markups and order-processing delays that enabled Chatfield to skim extra-thick spreads in 1991 and 1992. Greenberg was also suspended for six months.

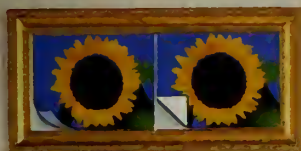
Greenberg, 36, insists he cooperated fully in the settlement and gladly hired former SEC chairman David Ruder as a Baker & McKenzie consultant to clean up Chatfield.

Sure enough, the firm has largely stayed out of trouble since. Ruder says it's been reborn: "Sandy [Green-



Shopping at a computer superstore

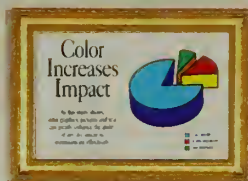
The shift to notebooks from desktops is playing to Japan's strengths.



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berg] inherited offices and brokers
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customers."

Maybe. With investors down an
average 53% on Chatfield's last five
underwritings, it's not suggested
for widows and orphans.

Nothing to it?

IN THE WAKE of the derivatives
nightmare that dragged down Or-
ange County, how has George Hall
(May 9, 1994) fared? Hall, who runs
New York's Clinton Group, man-
ages \$600 million of mortgage-
backed securities. He picked up a
bunch of them for a song last spring,
capitalizing on the collapse of David
Askin's hedge funds.

The answer: Hall's four funds



Clinton Group's George Hall
His mortgage-backed bets paid off.

were all up last year—from 5.25% for
Class A shares to a stunning 41%
over the ten months through Novem-
ber for Class B shares in his \$25
million (assets) Hudson Trust. The
key to Hall's success? Fully hedging
his positions to avoid the kind of di-
rectional bets on interest rates that
kayaked others.

Hall, whose computers are work-
ing overtime nowadays to identify
new bargains in mortgage-backed,
is low-key about his success: "I
don't really think it's as difficult as
people say."

Let's see if Hall's confidence
remains unshaken in 1995.

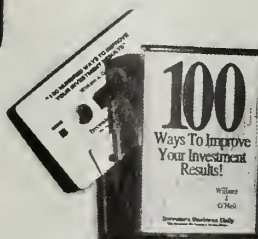
—KERRY A. DOLA

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Art of the deal, part deux?

PAST YEAR OR SO, Walt Disney boss Michael Eisner has been working with journalist Tony Schwartz on a book about his ten years running Disney and about the company's future.

Eisner is tempting fate: This is the same Schwartz who cowrote Donald Trump's 1987 *The Art of the Deal*, which hit the stalls before Trump's fat balloon burst. —LISA GUBERNICK

Join the club

DID BILLIONAIRE Marvin Davis get snookered in the derivatives debacle? In a lawsuit filed in Denver against a local investment firm, Davis claims the firm swindled him and partner Gerald Gray out of over \$29 million.

Davis and Gray invested \$20 million and \$4 million, respectively, with Kessler Ehrlich Investments Inc. between October 1993 and March 1994. The lawsuit contends that Kessler Ehrlich told the investors they could earn a high return with relative safety by borrowing short term to buy longer-term government-backed securities, thus profiting on the fat spread that then existed between short-term and long-term money. That nice little gain ended when Alan Greenspan jacked up short-term interest rates.

The suit alleges Kessler Ehrlich promised the leveraged position would earn Davis and Gray better than 14% on their investment and not expose them to margin calls. But, says the suit, they did indeed get hit

with a margin call when bond prices sank, \$4.5 million for Davis alone.

"We actually are very surprised he [Davis] brought the action," says Kessler Ehrlich partner Joel Ehrlich, "because he's receiving interest every month on his positions; always has. Double-digit returns. It's a buy-and-hold strategy that's still working."

Guess Marvin just can't bear to lose. His attorney didn't return Informer's call. —SETH LUBOVE

GM's Christmas cheer

GOOD NEWS from GM's production lines—for a change. GM has been plagued by delays launching new models, but production of its new four-door utility vehicle, slated to begin Jan. 16, is *ahead* of schedule. The first rolled from GM's Janesville, Wis. plant on Dec. 12. The vehicles, called the Tahoe, for Chevrolet, and the Yukon, for GMC, will formally go on sale in March. Price, fully equipped: around \$35,000. —JERRY FLINT

Corporate flacks, listen up

CREDIT Tampa-based Teco Energy, Inc. with some very smart P.R. On Dec. 12 an ex-Teco employee filed a confidential sexual harassment complaint with the Equal Employment Opportunity Commission charging Keith Surgenor, president of Teco's big Tampa Electric subsidiary, with having made unwanted sexual advances toward her.

"We were advised by the woman's attorney [on a Monday] that they'd filed the charge and that they intended to file a civil suit by Thursday if certain settlement conditions could not be reached," says Teco spokesman Michael Mahoney.

In short, the plaintiff's lawyer demanded a quiet settlement or he'd embarrass the company and the senior executive. "We decided to take our case to the public immediately," says Mahoney. On Dec. 14 Teco's chairman and Surgenor held a press conference at which the complaint was announced and the charges were denied.

Now the woman's lawyer is complaining. The nerve of the people, upstaging him like that. —MATT WALSH



Elvis Presley
Voice from beyond.

Graceland calling

THIS AUGUST will mark the 18th anniversary of Elvis Presley's death, but though the King is long gone, lots of people still want to talk to him.

Southwestern Bell Telephone discovered this while promoting its new "Calling Name Delivery" service, which lets customers see the name and number of callers on a phone display unit. Southwestern Bell asked people whose name they'd most like to see on their display unit. Over 25% of the respondents said that they wanted their relatives or loved ones to call, with Mom the clear winner. But among the celebrity names most mentioned, Elvis came in second, behind actor Tom Cruise.

—MICHAEL NOEL



Marvin Davis
Stung, or just smarting?

Different strokes . . .

CONFLICTING REPORTS from the corporate front on the dress-down trend in menswear (*Dec. 5, 1994*):

At Wal-Mart's Bentonville, Ark. headquarters, employees of the Sam's Club warehouse-club division are discouraged from wearing neckties.

But at Conoco's Houston home office, Chief Executive Constantine Nicandros is holding the line for ties and jackets. Two years ago he fired of a memo to the staff there reminding them that business attire is required

even on Fridays, and the stern edict still stands. "This is a worldwide headquarters," explains spokesman Thomas DeCola. "We have between 10 and 200 visitors each day, and we're going to show them the same respect they show us in adhering to business etiquette."

—R. LEE SULLIVAN

Stock à la carte

THE YEAR 1994 was a lousy one for \$86 million (sales) Pancho's Mexican Buffet: The Fort Worth-based Mexican restaurant chain's earnings slipped a penny a share, to 47 cents, and investors, expecting growth, not shrinkage, dumped its Nasdaq stock from 12¾ to 7.

But Pancho's is nothing if not resilient. Posters urging patrons to "Own a Piece of Pancho's" will be out at the head of buffet lines in each of its 72 locations (all in the South-



Pancho's Mexican Buffet

side of shares with your taco?

vest), along with descriptive brochures and reader-response cards for those who want financial data.

"A lot of business people eat lunch at Pancho's," says Chief Executive Hollis Taylor. "This is a good way to get more retail business."

Regulars, take note: Even if you don't plan to buy the stock, fill out a card and send for a Pancho's 1994 annual report. It includes a coupon for a free meal.

—R.L.S.

Forbes ■ January 16, 1995

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*According to Lipper Analytical Services, Inc., which ranked the T. Rowe Price International Stock Fund #1 out of 15, #15 out of 46, and #44 out of 146 international equity funds for the 10-, 5-, and 1-year periods ended 9/30/94, respectively. **As cited in *Forbes* magazine (Mutual Funds issue) dated August 29, 1994. †16.2% and 9.0% are the 1- and 5-year average annual total returns, respectively, for the period ended 9/30/94. Total return represents past performance. Past performance cannot guarantee future results. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary and shares may be worth more or less at redemption than at original purchase. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money.

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IRAO25330

Clothes make the man

SIR: Re "Dressing down" (*Dec. 5, 1994*). No successful businessman, regardless of his waistline, would be caught dead in either of those funny looking outfits on your cover.

—MICHAEL MAXTONE-GRAHAM
New York, N.Y.

SIR: Dress like a bum and you act like a bum. Dress like a gentleman and you act like a gentleman. Clothes create an impression you must live up to.

—JACK WOOD
Charlotte, N.C.

SIR: Generally a people's behavior reflects their dress. Is it any wonder that our society has rampant social problems when the fashion is to look as bad as we can? Maybe our ancestors had it right when they made little or no effort to look good without clothes but looked good when dressed. Now we do the opposite: we're trying to look good without clothes, then shower and dress ourselves like we want to be street people.

—WILLIAM B. DEPASS JR.
Columbia, S.C.

Guaranteed right

SIR: Re Dr. Thomas Sowell's "Power plays" (*Dec. 19, 1994*). The Fourteenth Amendment protects no one against discrimination in housing and employment. It took the Civil Rights Act of 1964 to end discrimination in housing and employment for many minorities.

—DOUGLAS HOLLEY
Seattle, Wash.

Is West best?

SIR: I was quite surprised to read your spirited defense of West Publishing's control over the citations to opinions by federal and state judges, and the fact that you attributed so much of the efforts to change this to the Taxpayer Assets Project, which I run ("West will always be there," *Nov. 21, 1994*). Three states, Louisiana, Colorado and Wisconsin, have separately taken steps to develop public domain citation systems entirely on their own, without so much as a postcard from us. The chief

drawback of the West monopoly on judicial citations is the very high cost of computer-assisted legal research. In states where competition among publishers exists, prices have fallen dramatically.

—JAMES LOVE
Director
Taxpayer Assets Project
Washington, D.C.

Long live the King

SIR: Re "Restoring the Romanovs" (*Dec. 5, 1994*). Western Europe has a long and deeply rooted tradition of monarchy. With half of the present European Union states being monarchies and strong monarchist movements in the Balkan countries, Poland, Estonia, Italy, Portugal and even republican France, I can't see what difficulty they would have in



Czar Nicholas II and family
Will monarchy spread?

accepting a constitutional monarchy in Russia.

As for the U.S., it seems to have no problem in cooperating with its G-7 partners that are monarchies—Japan, Canada and the United Kingdom—so why should it not feel equally at ease with a Russian monarchy?

—DONALD FOREMAN
Secretary-General
The Monarchist League
London, England

Balking on the Balkans

SIR: Re Fact & Comment (*Dec. 19, 1994*). What the Serbs are doing to the Bosnian Muslims is indeed horrible, but, at every opportunity, the

Muslims tend to respond in kind, unfortunately. If "leadership" could have solved this problem, any number of real world leaders would have enthusiastically solved it long ago, and taken the credit for doing so. The Serbian determination, the Yugoslav geography, the weather in the Balkans, and, especially, the history of the region all add up to "no solution" for this particular "problem."

—R. SCHUYLER GOODING
Omaha, Nebr.

Time out

SIR: Re "Enjoying Beijing" (*Dec. 19, 1994*). Giving a clock as a gift is a cultural faux pas, because the Chinese word for clock sounds similar to "end," as in The End. This has obvious bad connotations. Stick to watches or other gifts.

—BOB MICHAELSON
Seattle, Wash.

Seal of truth

SIR: Re "Where have all the salmon gone?" (*Nov. 21, 1994*). Those who looked after salmon fishing had a bounty on seals of \$5 each. When it was no longer legal to shoot seals they increased by the million. One evening in a heavy fog in a small cove [in the Pacific Northwest] I witnessed hundreds of salmon and sea-run cutthroat trout surrounded by seals that wiped them out. Of course dams are one factor, but a return of a bounty on seals would bring back not only our lost salmon but other varieties that have been wiped out.

—ROBERT F. KAISER
Quartzsite, Ariz.

Down and out

SIR: We believe it's important that we maintain our commitment to being a good corporate citizen ("Feeding the hand that bites you," *Dec. 19, 1994*). We're proud that we've been able to continue supporting community organizations during years in which our financial performance has not been as strong as it is this year (1994).

—HENRY H. HOLLING
Community and Corporate Support
Caterpillar Inc.
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



HOW TO ELIMINATE (ALMOST) THE DEFICIT

PUT THIS country's monetary policy back on a gold standard. We had gold-based systems of one sort or another from the time of George Washington to the 1960s. After the Civil War, the federal government rarely paid more than 4% for its long-term money. The same low rates applied to sound corporate borrowers here and to sound governments overseas. Until the 1960s and early 1970s, when we effectively undermined what was then called the Bretton Woods international monetary system, which had

gold as its anchor, a typical American couple could get a 30-year, fixed-rate mortgage for a house at 4¼%.

If we had a gold-based monetary system today, with its attendant far lower interest rates, we would save well over \$100 billion a year in interest charges on the national debt. Compounded over five years, that's a net savings of almost \$700 billion.

Even in Washington, that's real money. Isn't it time we overrode economists' irrational phobia against gold?

THEY STILL DON'T GET IT

INSTEAD OF SAYING that Bill Clinton is getting on the Republican bandwagon, the GOP should hammer home the fact that his proposals fall short, that the two parties are not yet on the same wavelength. Republicans should emphasize that the purpose of tax cuts is to stimulate more economic growth and more, better jobs. Spending cuts are secondary to pro-growth income tax cuts. The latter must not be made hostage to the former. Eventually, we'll get both. But priority should go to slashing tax rates, which will trigger a better economy faster than budget reductions will.

Neither the proposals of Clinton nor of the congressional Democrats will do much for the middle class or anyone else. Yes, they will be helpful to cut back departments such as Energy and Housing. It will be nice to liberalize the rules govern-

ing individual retirement accounts, to increase deductions taken for under-13-year-old children and to give some tax credits for college tuition. But the impact on the economy will be almost zilch. People would be much better off if Washington simply mailed them a direct rebate check.

What the Administration does not understand is what makes this economy tick. To grow, you need entrepreneurs and investors willing to risk capital. High tax rates punish those who want to get ahead. They put a high price on earning more. They inhibit savings. They degrade the quality of life by forcing couples to work full time when one of them may wish to spend

more time with the kids. High capital gains taxes hinder the flow of money from old investments to riskier new ones. Without risk money, progress is thwarted.



BLOODY BAD MOVES IN MEXICO

THE NEW ADMINISTRATION of President Ernesto Zedillo has made two egregious blunders that threaten to undo the country's hard-won progress of recent years. Unless the government changes course, Mexico risks descending into a deadly spiral of inflation and violence—which will drive millions of desperate people to try to cross our borders.

Mexico is once again partaking of that seductive, destructive drug of currency devaluation. In one fell swoop, the new regime destroyed its credibility with foreign and domestic investors. Devaluations invariably mean higher interest rates and higher prices. How will these help the Mexican economy?

Mexico fell into an inflationary spiral of ever-cheapening money in the 1970s and paid dearly for it with a catastrophic decline in its standard of living. Another round of inflation will exacerbate internal political tensions, undercutting the government's popular support.

Apologists claim Mexico's ballooning deficit necessitated this action. The argument is bogus. Developing countries usually run trade shortfalls as they import capital equipment and other economy-building products. Japan had trade deficits in the 1950s and early 1960s, as did South Korea in the 1960s and 1970s, and as did the U.S. for its first 100 years. Stagnant, inflation-plagued

Mexico often had trade surpluses during the 1980s.

The Zedillo administration has made another, equally bad, economic blunder, which has won no headlines at all: It has put off reforming its small-business-destroying capital gains tax laws. Unlike shares traded on the Bolsa, the sale of assets of nonlisted businesses are subject to a stiff capital gains levy. But there is an especially devastating provision that subjects business owners to a punitive, additional tax assessment. The law assumes that all businesses cheat on their taxes. Thus, when a firm is sold, tax collectors are allowed to impose, without any proof, a ferocious penalty for past evasion. The result is destructively obvious. Vibrant businesses are often stunted be-

cause they can't raise nonfamily capital. Small entrepreneurs are reluctant to grow their firms beyond a size that can be managed by the immediate family.

Economic policymakers recently assured us that the new government would rapidly scrap this provision, particularly since it raised no revenue. But inexplicably the government has decided it will postpone lifting this huge albatross off the backs of small business people, who are key to getting the economy growing again.

Mexico has inexplicably put itself in a flimsy boat in dangerous rapids. Its emerging middle class has high expectations and will not passively tolerate this government's inability to deliver the goods.

FIRST-RATE REPORTER

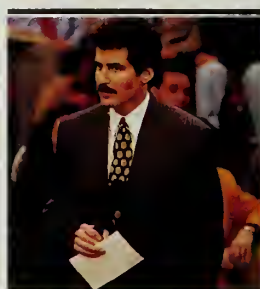
THE WORK OF ABC TV's John Stossel stands out in a medium that too often panders to emotion and doesn't dig beneath the surface. His segments on *20/20* are noteworthy, even on a show that has an unusually large share of good ones.

He recently conceived and anchored a first-rate television special on this country's growing trend of blaming everyone else for our accidents or our adverse behavior. Too often TV will simply let the aggrieved parties run on, giving the impression that their alleged grievances are meritorious. Stossel has never hesitated to do the opposite. On *20/20* he effectively took on Rodney King's lawyers, who were bilking the government with outrageous fees. One of these attorneys charged taxpayers

for the time he spent giving TV interviews about the case!

Another riveting piece of Stossel's dealt with a child molester who wants to be castrated. The molester will soon be out of prison and says forthrightly that his urges are so strong that he's going to commit similar crimes again. Stossel treated this volatile subject in a sober, unsensational manner.

Stossel also goes against TV's grain in his appreciation of free markets. A couple of years ago he gave a talk, impishly noting that it was commercial stations that often came up with the best consumer reporting, even if some of those stories cost a station advertising, while, in contrast, public television was notably absent in this area.



John Stossel: not bound by TV convention.

STRONG TALENT

IF THERE ARE any people left who don't realize that Arnold Schwarzenegger is a superb actor, they ought to see *Junior*. The utter improbability of the muscular Schwarzenegger playing the role of a sensitive, pregnant man could have made both Arnold and the movie laughingstocks. Instead, the film is an absolute delight, its very implausibility immeasurably adding to the fun.



Bruce M. Brown/Everett Collection

KILLING FIELDS OF FRANCE

Death's Men—by Denis Winter (Penguin Books, \$12). Poignant picture of the British soldiers who fought in France during World War I. The author read some 250 individual memoirs stored at London's Imperial War Museum and interviewed scores of survivors (the book was written in the 1970s). He covers interestingly and well all aspects: training, trench routine and "rest," weapons (including poison gas), wounds received in this prearmored vehicle era of high explosives, the men's emotions before, during and (if they survived) after deadly offensives, their treatment in hospitals, their attitudes toward the enemy. Never before had there been a conflict where so high a percentage of combatants was killed or wounded on the battlefield or where soldiers had

to endure battlefield stress for so long. There is no bathos here. Winter doesn't romanticize these individuals. He critically examines the social backgrounds that the "other ranks" were drawn from.

World War I began and shaped the 20th century. The war's extraordinary, unexpected violence made possible the rise of Communism, Fascism and Nazism and nearly shattered the optimism and faith of the Western World.

Excerpt: *This full arsenal reflected the two magnificent centuries of social development in European history. No other continent except North America could have supplied and gathered so many men at such a distance from their homes in so confined an area. No other continent could have killed and broken so many in so many ways.*





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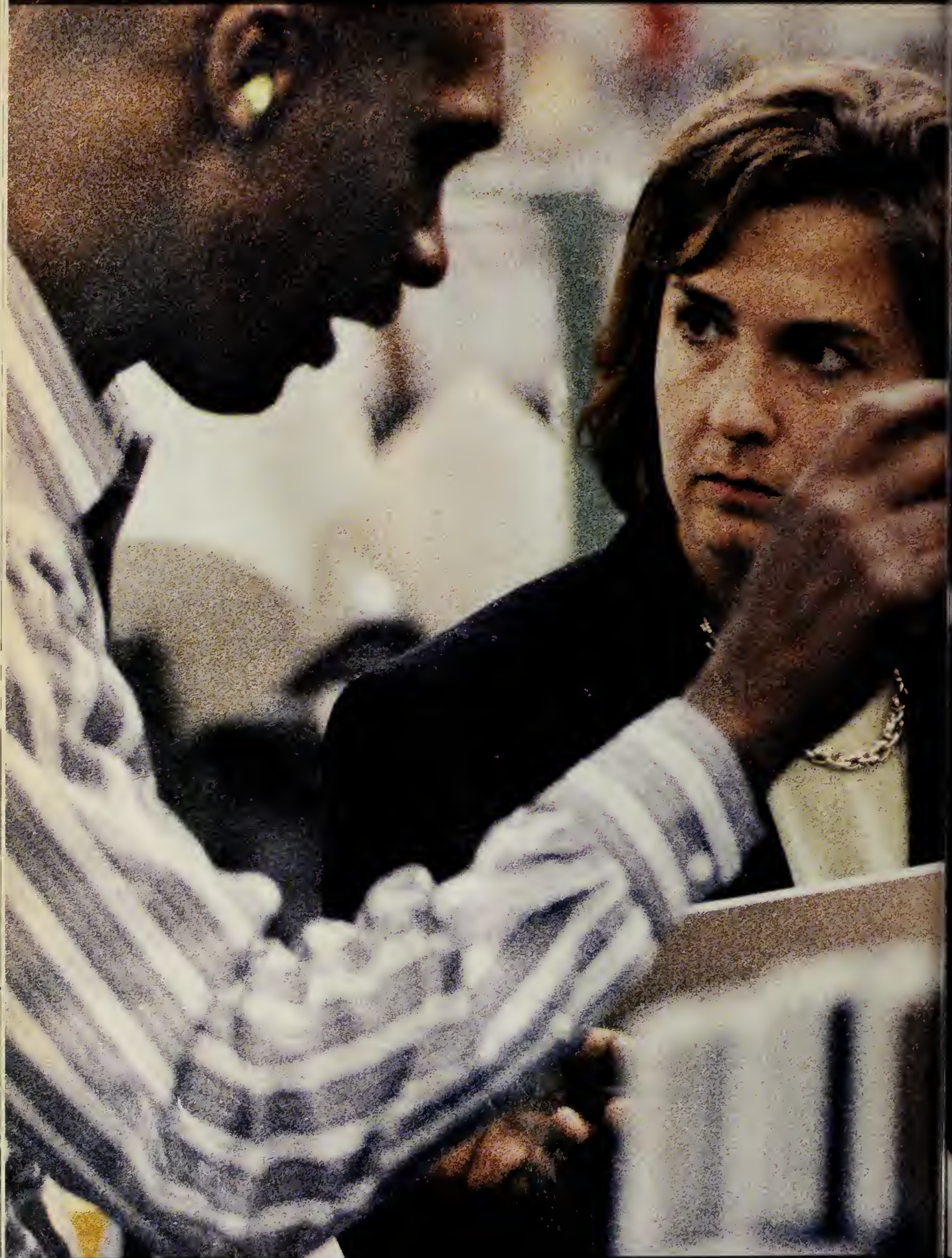
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Morgan equity analyst at a textile mill

Insight

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Other Comments

Bully Dulles

WINSTON CHURCHILL described John Foster Dulles as "the only bull I know who carries his china closet with him."

—RICHARD NIXON, *Leaders*

Perilous Policy

THE ZEDILLO ADMINISTRATION's decision to devalue the peso is a major error. [The] devaluation [will be] followed by a rising cost of labor as workers realize their wages have been diminished by the amount of the devaluation. Organized labor correctly rejected the government's appeal to support the devaluation and demanded wage increases to fully offset the peso's decline. Because business and industry must now pay a higher capital cost and higher import prices, it will not be able to pay higher wages, too. Mexican industry will downsize, real wages will fall, unemployment will increase, and so will emigration of capital and labor to the U.S.

—JUDE WANNISKI, Polyconomics, Inc.

Get a Grip

ANY FAIR SYSTEM of income taxation should be based on the principle that similar individuals with the same income should pay the same tax. The capital gains tax violates the fairness principle because the primary sources of capital

gains are inflation and retained earnings.

Inflation creates an artificial gain that doesn't correspond to any real increase in wealth. Taxing nominal gain is like taxing someone on the money that he takes out of his bank account. It's not real income and shouldn't be taxed.

The second major source of capital gains is retained earnings. Since reinvested earnings have already been taxed at the company level, taxing the capital gain that results from retained earnings is double taxation.

The new Congress should waste no time in improving our tax system and the economy by starting [the] reform process [of capital gains taxes].

—MARTIN FELDSTEIN, former chairman, Council of Economic Advisers, *Wall Street Journal*

'Snow Wonder

THE FIRST ARTICLE I ever published, on a small printing press given to me on a snowy Christmas when I was 6 or 7, consisted of a report on snow depth in inches, and was distributed to neighbors. It read, in its entirety: "The snow 15." Snow seems to come into my life in the form of memorable coincidences. The Horatian ode "*Diffugere nives* . . ." about the melting of snow, was the first piece of Latin verse I ever

translated on my own, an achievement that occurred at roughly the same time as my first reading of James Joyce's short story "The Dead," whose most famous words, in the haunting conclusion, are "snow was general all over Ireland." Snow makes me feel snug as a vole. There were ten major snowstorms in my region of New England last winter, and I contentedly wrote a check to the snowplow man each time.

—CULLEN MURPHY, *Atlantic Monthly*

It's foolish to brag about the amount of assets you have, because that means you have nothing else to brag about.

—KIM WOO-CHOONG, chairman, Daewoo Group, *It's a Big World and There's Lots to Be Done*

Looking Death in the Eye

MEN WAITED uncomfortably for the dawn. Most old soldiers considered 'going over the top' the greatest test a man would face in his life. At ten minutes to zero the rum issue might be brought round—a small coffee-cup full of overproofed, treacherously forgetfulness—then the men would be ordered to fix bayonets. 'Not a word spoken. The officer has the whistle in his mouth and keeps his eyes fixed on the synchronized watch. All eyes are on him.' The shrill of a whistle or the drop of a cap and the men went over the top. Now the whole body was exposed to machineguns set to sweep along the brim of the trench.

—DENIS WINTER, *Death's Men*

Truth in Advertising

AS A RIPOSTE to the Kyoto girl wearing a sweatshirt with the legend "I visited Australia and liked it so much I bought it," [here is an] ad spotted in the [Asian] *Wall Street Journal*:

Wanted—Japanese buyer for highly overpriced Northern Ohio Mobil Home Park. Currently value \$1.6 MM, asking \$2.3MM firm.

—DEREK DAVIES,

Far Eastern Economic Review



Drawing by Handelsman; © 1994 The New Yorker Magazine, Inc.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Chairman*



TAIWAN—A WARM AND POWERFUL FRIEND

TAIWAN'S SELF-ESTEEM rose substantially in December. This island nation with one of the world's strongest economies (developed over some 40 years) moved, symbolically at least, closer to the legitimacy and recognition its accomplishments clearly deserve.

Taiwan's local elections were globally acclaimed as a triumph for democracy, defying ignorant critics who claim Taiwan is run by a small clique of the Kuomintang—or Nationalist Party—that has ruled since the founding of the Republic. The Nationalists lost one major mayoralty and some of their strength in the provincial assembly, but they retained the governorship of Taiwan by a wide margin. "There was something for everyone," one high official said. Best of all was the 75% turnout of voters—which puts most of the democratic West to shame.

Even more pleasing to Taiwan than the election results was the presence of both the U.S. Transportation Secretary, Federico Peña—the first American Cabinet member allowed to visit Taiwan in two years—and former President George Bush (much revered in Taiwan) at the joint USA-ROC and ROC-USA Economic Councils meeting. (Full disclosure requires me to report that until the completion of my term on Dec. 31, I was the chairman of the USA-ROC Council.)

Secretary Peña made an excellent impression, talking frankly of Taiwan's amazing economic achievements and of the importance of a closer relationship, which could be greatly helped by increased trade between our two nations.

President Bush touched on many of the same themes in a widely praised speech. Most Americans know that Taiwan is one of Asia's "Four Tigers," but few are aware of the spectacular statistics behind this country's achievements. Taiwan has some \$92 billion in foreign exchange reserves—second only to Japan. Taiwan now has the world's 20th-largest gross domestic product, is the world's 13th-largest trading economy and the 12th-largest exporter. It is the U.S.' 6th-largest trading partner, after Germany and Great Britain—and ahead of France and South Korea. And Taiwan is the 2nd-largest market for the U.S. in Asia, after Japan. Taiwan's per capita GDP is about \$12,000, compared with several hundred dollars per capita on mainland China.

President Bush and Secretary Peña met with Taiwan's President Lee Teng-Hui and found, as I always have, a warm, kind, extremely able and strong leader.

Taiwan is in the midst of an ambitious program to rebuild and modernize its infrastructure: its major roads, ports, communications and information systems, and to improve its environmental conditions. America needs many of the contracts being awarded to carry out this large scheme. But, despite Taiwan's strong friendship with America and its natural desire to deal with U.S. contractors, we make it very difficult for Taiwan to do so because of the intimidation of our State Department by mainland China.

The fact that Secretary Peña was granted permission to visit Taiwan only after urgent pleas to President Clinton and a fierce struggle within the Administration shows that U.S. policy toward Taiwan is still based on fear of offending China, rather than on our own national interests. But credit must be given to Mr. Clinton for finally allowing the first Cabinet-level visit in two years. France, Britain, Germany and many of our competi-

tors have no such qualms, as the 30 or more such visits by their cabinet-level officials testify.

The many failures of French contractors in trying to build Taipei's new subway system will strengthen the U.S.' hand as our companies bid for other major Republic of China contracts. Indeed, many believe that the French failures, cost overruns and delays in subway construction are among the main reasons the Nationalist candidate for mayor of Taipei was recently defeated. It was reminiscent of the year the mayor of Chicago was defeated because the mess left by a major blizzard was not cleaned up efficiently and quickly.

But Secretary Peña's successful visit and that two years ago by Carla Hills, U.S. Trade Representative, are not enough. We must at least allow Taiwan's President Lee and other high officials to visit the U.S. President Lee cannot even come to Cornell University, his alma mater, to receive an honorary degree under our feeble approach to Taiwan relations.

What we must do is spelled out in a resolution by Senator Frank Murkowski (R-Alaska), who also made a well-received speech in Taiwan in December. The sooner the new Congress moves in this direction, the better.



Peña and Lee meet in Taipei.

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The agenda for labor law reform

DURING THE DECADES that the Democrats controlled Congress, corporate America didn't push very hard to reform labor law. The bosses never knew what they might get.

But now the Republicans are in charge, and business is developing an agenda for labor law reform. Most of the proposals aim at making the workplace more flexible, and hence more productive. Top priority for big business: legalization of employee/management productivity and quality committees.

The problem: A recent national survey indicates that a quarter of these committees sometimes discuss pay and benefits. That's usually illegal. The National Labor Relations Board, backed by court decisions, has held that discussions of pay and other working conditions can turn the committees into illegal company-dominated labor organizations.

"Employee involvement is a key competitive weapon. We want to eliminate the legal cloud," says TRW Executive Vice President Howard Knicely, who is chairman of the Labor Policy Association, a big-business group.

The unions will fight attempts to spread worker/boss committees, but the employers will probably win. Senator Nancy Kassebaum (R-Kans.) tried in the last Congress to make these committees legal, so long as they stay away from

collective bargaining. Now Kassebaum is chairman of the Senate Labor & Human Resources Committee and will have much more clout. Backing the change in the House will be Representative William Goodling (R-Pa.), the new chairman of the House Economic & Educational Opportunities Committee (formerly the Education & Labor Committee).

The rest of the bosses' labor agenda is laid out in a new book, *Keeping America Competitive*, from the Employment Policy Foundation. On the program:

- Reform of the Fair Labor Standards Act to allow more flexible scheduling and easier use of performance bonuses, and to clarify who is exempt from overtime rules.
- Repeal the 1936 Davis-Bacon Act, which requires government contractors to pay union wages, driving up government costs.
- Reining in the Occupational Safety & Health Administration, especially its red tape requirements. (This is also part of the Republicans' Contract With America's attack on excessive government regulation.)
- Looking for ways—such as mediation or arbitration—to speed resolution of employee discrimination suits, which are backing up at the U.S. Equal Employment Opportunity Commission (FORBES, Nov. 21, 1994).

An agency out of step with the times

APART FROM THE REPUBLICAN MAJORITY in Congress, the country's trade unionists face widespread apathy by workers toward unions. Union membership continues to decline. Only 11.2% of private sector workers belonged to unions in 1993. That's down from 16.8% in 1983. Only among the 18.6 million public sector workers has organized labor gained a little. Led by the National Education Association teachers union (membership: 2.2 million), in 1993 public employee union membership was 37.7%, up from 36.7% in 1983 (see chart). The chart also shows that the number of big

strikes continues its secular decline, despite a small uptick in 1994.

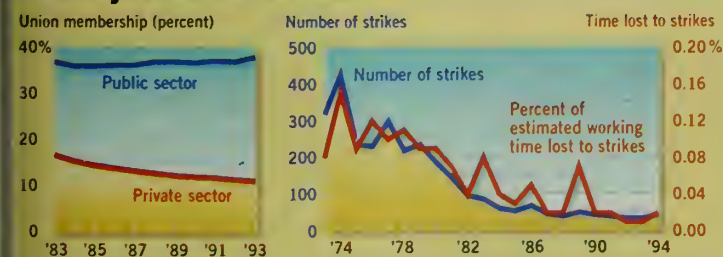
While President Clinton scrambles to move toward the center, his Labor Secretary, Robert Reich, remains an aggressive proponent of a trade unionism whose day seems to have passed. A new national survey, conducted by Princeton Survey Research Associates, shows that workers would rather cooperate with their bosses than confront them—although they also say they'd like more influence at work. Some 63% of workers said that employee/management committees are the most effective way to increase their influence on the job. Just 21% thought unions were the best way, and a mere 15% looked to new laws. But half of workers at nonunion companies would prefer to elect their committee representatives.

Representative Goodling sums up the new mood this way: "The day of confrontation has to go by the boards. We have to have labor and management working very closely together. If they don't, we're not going to succeed, and then, of course, our standard of living goes down the tube, and so do our jobs."

—JANET NOVACK

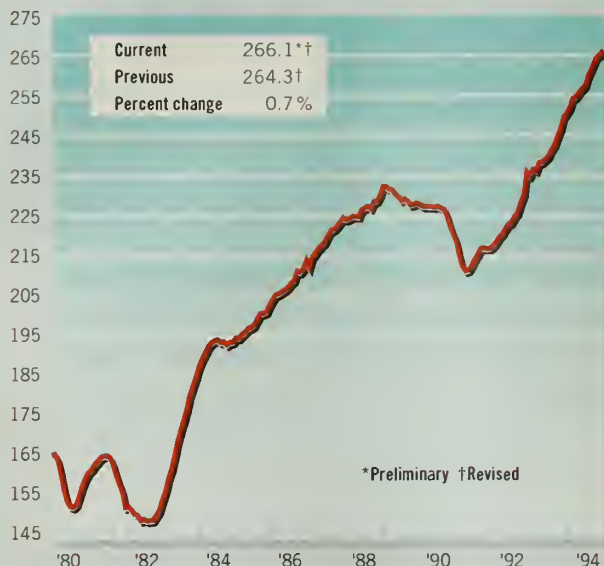
the only
consolation for
the labor unions
is a slight uptick
in public sector
membership.

Militancy is out of fashion



Source: Bureau of Labor Statistics

The Forbes Index (1967=100)



Edward Yardeni, chief economist at CJ Lawrence Deutsch Bank Securities, thinks the Federal Reserve should worry more about disinflation than inflation. Yardeni points to three powerful disinflationary forces working in the economy. First, the Republican-dominated Congress is likely to reduce the regulatory costs of doing business. The second force is free trade: GATT and Nafta will increase competition and help drive down prices. Finally, the next generation of computerization will enable businesses to increase productivity and lower costs.

Other key rates

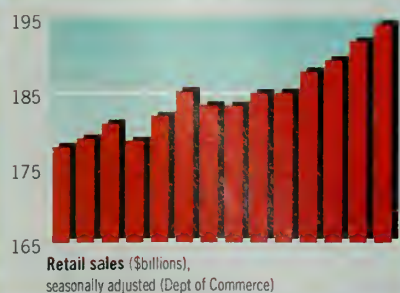
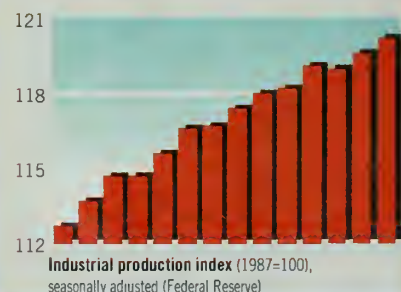
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1993 ¹	Ward's Automotive	7.6%
Index of leading indicators Oct vs Sept	Dept of Commerce	-0.1%
Trade balance ² 12 months ended Oct 1994	Dept of Commerce	-\$103 bil
All-commodity producer price index ³ Nov vs Oct	Dept of Labor	0.5%
GDP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	4.0%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	-0.5%

¹ U.S.-based manufacturers, excludes imports, as of 11/30/94. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



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Bill Griggs hoped that British postmen would buy his clunky work boots. But now Madonna loves them, and so do millions of well-heeled teenagers all over the world.

What's up, doc?

By Richard C. Morais



Stephen Griggs, chairman of R. Griggs Group Ltd.
American teenage girls are donning Britain's boot for skinheads.

IN A DANK turn-of-the-century office in forgettable Wollaston, a sleepy hamlet in the British Midlands, Stephen Griggs shows up for an interview wearing an electric orange shirt under a brown granny vest. Below his too-short pants flash matching orange socks. We're talking seriously unfashionable.

But then Stephen Griggs, 33, is the man who makes the unfashionable fashionable. He's chairman of privately owned R. Griggs Group Ltd., maker of the Dr. Martens boots currently stomping through America's malls. The clunky boots with the heat-sealed rubber soles are known as "Docs" or "DMS" to the initiated and have for decades been standard gear for Britain's skinheads and neo-Nazis. Now they're flying off the shelves at Nordstrom.

Listen to Heather Clarkson, a 16-year-old at boarding school in Dublin, N.H.: "I bought my first Doc Martens in seventh grade. The next summer I bought the black high boot with the nine [eyelet] holes. This summer I bought a 'fruit' pair in London. They're in. You go to the city and everyone is wearing them." Need we add that to hip teenagers like Heather "the city" means New York City?

When sales at R. Griggs Group Ltd. reached \$59 million in the fiscal year ended March 1990, the U.S. accounted for less than 3% of sales. Four years later sales have quintupled, to \$293 million, and pretax margins are around 15%. Exports account for 75% of revenues, the U.S. alone nearly 20%. "We're selling 125,000 pairs a month in the U.S.," says Griggs. "It's the Beverly Hills 90210 crowd."

But who is Dr. Martens? In 1945 Klaus Maertens, a Bavarian doctor, fell while skiing and needed a boot to ease the pain of walking. He fashioned a pair of soles out of tires and sealed them to uppers with heat in such a way that air was trapped within compartments and cushioned the foot. Two years later he and his friend, Dr. Herbert Funck, patented the design. The shoes soon became favorites all over Germany for old ladies with bunions.

Stephen Griggs' grandfather, William, a Wollaston shoe manufacturer, was struggling to survive. Dr. Maer-

Woodstock in Dr. Martens; in the early 1970s cult rock opera film *Tommy*, Elton John wore oversized DMs. Thus did the boots become an artifact of rock. "When people buy Dr. Martens, they buy a bit of British subculture," says Griggs.

But the women's market took the Griggses totally by surprise in the 1980s. Today 70% of the boot's customers are young women.

R. Griggs Group never advertised, but followed up quickly with new designs each time the streetwise put the boot to new use. Punkers custom-

mal school at 16, studied accounting and shoe manufacturing techniques, then spent a decade at the family firm fastening soles, cutting patterns and learning wholesale distribution before taking on executive duties. His father just named him chairman.

The new chairman is already putting his touches on the business. R. Griggs recently remodeled a five-story building overlooking London's Covent Garden and opened it as a Dr. Martens department store. Griggs is hoping to cash in on the strong brand image with an entire Dr. Martens



Doc Martens department store
Selling grunge Harris tweed.

ens had advertised for a British license in a trade publication, and the elder Griggs responded.

Bill Griggs anglicized the name to Dr. Martens and produced the first pair on Apr. 1, 1960. The joke was on him. He figured the boots would find a market among postmen, firemen and policemen, but almost immediately an eight-eyelet cherry red model became the trademark of "Bovver Boys," early skinheads, and Britain's tabloids began charting the ways of his counterculture boot.

Descendants of the two German doctors still collect fat royalty checks.

Three decades on, Dr. Martens has mysteriously retained its status with Britain's underground. In 1969 the Who's Pete Townsend showed up at

ized their DMs with designs and soon the company was producing boots decorated with weird floral, metallic and lacey designs. Women got their own line. Even vegetarians were offered a "vegan" version made of leather-like materials. Today R. Griggs makes 150 styles of the boot in 3,000 versions, retailing from \$62 to \$135. "The different kinds make them fun to buy," says Heather Clarkson.

Dr. Martens has strutted its way from London's East End squats to the international catwalk. Madonna wears the boots. Calvin Klein recently sent supermodel Kate Moss out on the runway in nothing but underwear and DMs.

Chairman Stephen Griggs left for-

clothing line—everything from children's vests (\$70) to grunge versions of Harris tweed jackets (\$560). Its first week the store sold \$150,000 worth of goods.

And so the almost inexplicable trend rolls on.

A year ago a principal at Texas' Grapevine-Colleyville high school outside Houston tried to ban Dr. Martens. Noting that some troublemakers were wearing the boots, she claimed they promoted racism and violence. Outraged students staged a mass protest. She caved in.

As Griggs tells the story, he grins. Well he might. Young people around the world, seeking to be different and to outrage their elders, have made him and his family very, very rich. ■

The University of Rochester found that raising tuition actually caused per capita revenue to decline. So it's cutting prices, hoping to increase revenues.

Economics 101

By John R. Hayes

WITH THE EXCEPTION of places like Harvard and Stanford, which can charge almost any price and still get the cream of the crop, smaller private colleges and universities are losing out to state-subsidized universities for many desirable students who come from families too prosperous to receive financial aid.

The 4,500-student University of Rochester is fighting back. The western New York private school is cutting costs for about half its incoming freshman class by almost 20% this September. Technically, the \$5,000 is a grant, not a tuition cut, and it applies only to New York State residents and alumni children.

Rochester hopes the grants will pay for themselves by attracting students who want to go to a private college but can't afford Rochester's normal \$25,000 annual full tuition, room and board. Tuition and mandatory fees at Rochester now run \$18,260, room and board nearly \$7,000.

By contrast, tuition, room and board at the State University of New York campuses at Binghamton and Buffalo run about \$7,000 a year.

With state legislatures treating their universities as sacred cows even in times of budget stringency, the gap between private college costs and public in-state college costs has widened. The private universities, for their part, have run a kind of two-price system, taxing relatively affluent parents to support talented students from less affluent families (FORBES, Jan. 17, 1994 and July 18, 1994). A lot of middle-class parents have tired of paying this tax. They are sending their kids to the state-subsidized schools. "Now it's okay if your child goes to a state school," says Kalman Chany, president of a Manhattan-based financial aid advisory company called Campus Consultants Inc.

Rochester, too, taxes affluent parents to finance scholarship aid. A full 70% of Rochester's students now receive financial aid (average award: \$10,850). This has had a perverse effect on revenues. As tuition rises to finance more finan-



Thomas Jackson, new president of the University of Rochester
The price is too high when 70% of the students need financial aid.

aid, more students require the aid. As a consequence, despite steep tuition rises, the actual per capita income from freshman students (the sticker price less grants) has actually declined by \$7, to \$9,045. The inescapable conclusion: Raising tuition is reduced revenues.

So, by attracting more students who will pay more out of their own pocket, Rochester hopes to avoid further revenue drops.

Rochester is gambling with a cut now because it feels it has to. Fifteen years ago 60% of the school's student body came from within the state. Today the figure is 45%, and 80% of those students receive financial aid. By cutting prices, Rochester hopes to attract some paying business away from the state universities and thus have to give away less in scholarship grants.

"Like housing prices in California, robust tuition growth can't go on forever," says Thomas Jackson, a bankruptcy law professor who became president of the University of Rochester in July.

How's the cut working? It's still too early in the admissions process to tell, though applications from New York State residents are so far running 4% ahead of last year's pace. A pilot program last year, limited to the six counties nearest the school, gives Rochester some confidence that its gamble will pay off. From those counties last year, enrollment of no-need students jumped 130%, and the number of students with combined SAT scores over 1300 went from 5 for the 1993-94 freshman class to 24 this year. So far this year applications from the same six counties are up another 10% over last year.

"I'm sure a lot of colleges and universities are watching to see what their experience will be," says Mary Maydew, treasurer of Mount Holyoke College. "We certainly are." A decade ago, Holyoke experimented with dropping its prices below those of equivalent schools, but dropped the experiment when applications declined. Back then the feeling was that price connotes quality. But times have changed, and middle-class parents are in revolt against the current system, that of taxation—without representation—by arrogant college administrators. ■

Williams Cos. likes to make contrarian bets. That's why it has sold off its thriving communications network and is reinvesting the cash in natural gas pipelines.

Arbitrage

By Christopher Palmeri

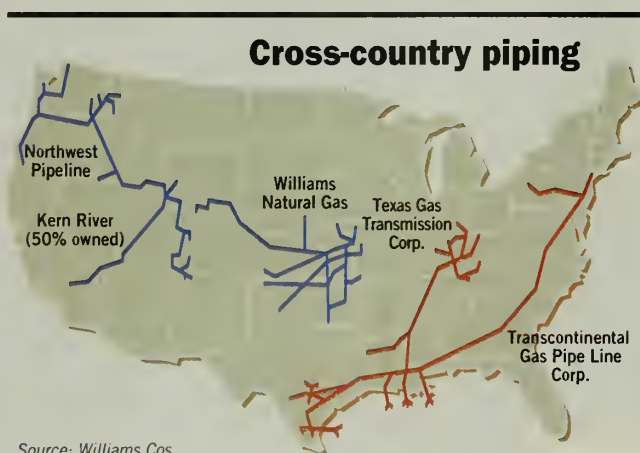
KEITH BAILEY stands 6 feet 5 inches tall and weighs in at 295 pounds. But neither his weight nor his years—he's 52—keeps him off the basketball court. If he's no longer fast, he still knows how to position his massive frame to block opponents so that his teammates can score baskets.

Knowing this helps you understand the corporate strategy at Tulsa's Williams Cos., Inc., one of the nation's smartest operators of natural gas pipelines. In mid-December, seven months after being named chairman of Williams, Bailey announced plans to pay \$3 billion for Houston-based

in the Northeast and Midwest. If enough Transco shareholders tender their shares this month, Williams will vault from being a big regional player to becoming the nation's largest interstate transporter of natural gas, with revenues of \$4.7 billion and cash flow in excess of \$900 million.

The combined pipeline network will connect all of the nation's major gas-producing basins with fast-growing markets in the Northwest and Northeast, where Transco supplies half of New York City's gas.

Wall Street, wary of highly regulated pipelines, quickly panned the deal



Source: Williams Cos.

By adding the Transco pipelines (in red) to the Williams routes (in blue), the company hopes to move more cheap Rocky Mountain gas to hungry markets in the Northeast.

Transco Energy Co. The deal involves more than just a desire to make Williams bigger. It's not how big you are that counts, but how you use your heft. "People say you don't need to own the pipe," Bailey says, "but reality tells us that the more substance you have, the more physical presence and credibility; that tends to tilt the playing field in your favor."

Transco certainly gives Williams a lot of additional physical presence. It owns two vast gas pipelines connecting fields in south Texas, Louisiana and the Gulf of Mexico with markets

by knocking over \$250 million—more than 10%—off Williams' market value, leaving the stock at \$25 a share, 25% below its 1994 high.

Could Wall Street be wrong? It seems to have both misunderstood the deal and forgotten Williams' demonstrated managerial skills.

Transco had been struggling under a heavy debt load, incurred in settling poorly priced gas contracts in the mid-1980s. With Williams' heft behind it, Bailey says he will double Transco's capital spending, pursuing new projects in regulated pipelines



Williams Chairman
Keith Bailey

A big contrarian.

"People say you don't need to own the pipe," says Bailey. "But reality tells us that the more substance you have, the more physical presence and credibility; that tends to tilt the playing field in your favor."

and in nonregulated gas gathering and marketing.

Financing the Transco purchase is no problem, thanks to the entrepreneurial skills of Bailey's predecessor, Joseph Williams, the son of one of the company's founders. In 1985 Joe Williams put Williams' rights-of-way to additional use by stringing fiber-optic cable through unused pipeline. Five years later Williams Cos. Wiltel subsidiary was the fourth-largest national telecommunications network.

In August Bailey accepted an offer from LDDS Communications, of Jack-

son, Miss., to buy the Wiltel network for \$2.5 billion about \$1.6 billion after taxes. In cash. Bailey is reinvesting the cash in the pipeline business. It's a classic case of value arbitrage. Williams sells Wiltel for more than 12 times Wiltel's cash flow and turns around and buys Transco for less than 10 times cash flow.

In buying Transco, Williams is placing a contrarian bet. Many firms are lessening their exposure to regulated pipe. Enron Corp. (FORBES, May 24, 1993) has diversified into nonregulated businesses, including gas marketing, exploration and international power projects. Along the way, Enron has taken money out of lower-return pipelines by selling four limited partnerships to the public.

Moving the other way, Bailey and the Williams board seem to be counting on a political trend toward less regulation. Indeed, regulators are considering changes this year that might allow pipeline operators to earn more money on their capital.

Bailey is also counting on his company's demonstrated expertise in making the pipeline business pay.

Twelve years ago Williams made another risky purchase with the \$1.1-billion hostile acquisition of Northwest Energy Co. and its two regulated interstate pipelines. From that base Williams developed the successful Kern River Pipeline (in a joint venture with Tenneco). It also built William Field Services, one of the nation's largest gas-gathering companies, and much of the Wiltel fiber network.

"It's an often-used term," says Bailey, "but in buying Transco we think that we are expanding into our core competencies."

Nextel disappointed the optimists, but don't write this company off.

Too much, too soon

by Gary Samuels

YEAR AGO Nextel Communications Inc., the wireless communications operator, was a hot stock at 50 a share. Now it's languishing at 15. More than \$4 billion has been wiped from Nextel's stock market value. It's a classic case of unrealistic expectations giving way to unrealistic gloom.

The brainchild of a former Federal Communications Commission lawyer, Morgan O'Brien, and a former cellular executive, Brian McAuley, Nextel was started in 1987 to buy radio spectrum licenses held by taxicab fleet dispatchers. A few years later O'Brien received FCC permission to convert his two-way specialized mobile radio frequencies into full-fledged cellular telephone networks, using digital wireless technology from Motorola. The value of its specialized mobile radio licenses rocketed. It was like owning land under a beachfront shack and getting it rezoned for a luxury hotel.

All of a sudden everyone wanted to be partners with Nextel. Motorola supplied the digital specialized mobile radio technology and agreed to trade its portfolio of dispatch licenses—the country's biggest—to Nextel for around 24% of Nextel stock.

Northern Telecom, Matsushita, Comcast and Nippon Telegraph & Telephone came in as investors and partners. MCI announced that it would buy part of Nextel and market

its cellular service nationally.

By late 1993 Nextel's stock had climbed to 55 a share—almost four times the price when the company went public in March 1992.

But then Motorola and MCI bickered over how much MCI should in-

vest in Nextel. Last August MCI pulled out. Rumors began circulating that Motorola's digital technology had serious problems.

while Nextel was never as good as people thought a year ago, neither is it as bad as people seem to think today. Expectations had run high that the company would become a full-fledged competitor to conventional cellular operators almost overnight. These expectations were entirely unrealistic. Nextel's explicitly stated plan has always been to upgrade its licenses to cellular slowly, as the digital technology developed, and in the meantime make money from providing wireless voice and paging services to its core customers in the taxi and fleet markets.

For these customers, the Motorola/Nextel digital specialized mobile radio system already works well. Trucker J.B. Hunt, Inc. has installed 350 Nextel phones in trucks, in dispatch base stations and in managers' cars in California and plans to add hundreds more around the country. "They've more than paid for themselves [in productivity improvements]," reports Michael McCormick, who oversees the trucker's operations in 11 western states.

Motorola admits it is behind schedule. But, says Frederick Wright, the Motorola vice president in charge of the digital SMR equipment: "Everything is fixable and being fixed."

Today Nextel's digital service covers Los Angeles, San Francisco and most of the rest of California, as well as metropolitan Chicago and New York. One-Comm Inc., about to merge with Nextel, has digital specialized mobile radio networks set up in Denver, Seattle and Portland, Ore.

Nextel has investments that will give it coverage across Canada and Mexico.

Conventional cellular licenses go for \$150 and more per head of population in the service area covered by the license. At current stock prices, Nextel is priced at just \$15 per head. For all the talk about efficient markets, the reality is that markets still swing between extremes of optimism and pessimism.

Peter Oringue



Nextel cofounder Morgan O'Brien

Everything is fixable.

vest in Nextel. Last August MCI pulled out. Rumors began circulating that Motorola's digital technology had serious problems.

The word began spreading that Nextel was a big bubble. Boston's State Street Research analyst Charles Pluckhahn speaks for the skeptics: "It may well be that the Motorola system is one big turkey."

But there's reason to believe that

In a cutthroat business, middling-size Good Guys has prospered with a broad range of merchandise and superior service. Will the bigger retailers eat its lunch?

We're the good guys

By Marc Ballon



Good Guys Chief Executive Robert Gunst
Bracing for the battle of his career.

ROBERT GUNST, a boyish-looking 46-year-old with a shock of gray hair, is used to being in tough situations. When he was a 22-year-old trainee at First National Bank of Chicago, the resignation of his boss suddenly thrust him into the job of trading a \$1 billion portfolio in short-term governments. "Normally, a new trader costs about a quarter of a million in losses to break in. I ended up seven figures ahead. I was lucky," he says.

Securities trading is almost tame, however, compared with what Gunst is doing now: competing in the cut-

throat, low-margin business of selling consumer electronics. Gunst is president and chief executive officer of San Francisco area-based The Good Guys, Inc., a \$725 million (revenues), 59-store West Coast retailer of high-quality stereos, VCRs, televisions and other consumer electronics equipment. Good Guys has 28 stores in southern California, 24 in northern California, 1 in Nevada and 6 in Washington State. These shops are heavily stocked, containing as many as 4,500 different items, compared with 3,600 for Richmond, Va.-based Cir-

cuit City and 2,000 for Minneapolis-headquartered Best Buy.

In an industry littered with bankruptcies and disappointments, Good Guys has been a standout since former stereo salesman Ronald Unkefer, now chairman, founded the company in 1973. Good Guys posted a 29% sales increase for the fiscal year ended Sept. 30, well ahead of the industry's 21% gain for high-quality consumer electronics retailers. Its stores moved \$1,489 for every square foot of (selling) floor space, the highest among major publicly traded consumer electronics retailers. Runner-up Circuit City moved \$1,179 per square foot.

On these revenues Good Guys netted about 1.9% of the sales dollar, compared with 3.2% for Circuit City and 1.4% for Best Buy.

Right now Gunst is bracing for what could be the battle of his feisty career. Best Buy, a much larger company, has invaded Good Guys' turf, having just opened seven superstores in southern California. Sitting in his office overlooking San Francisco Bay, Gunst is ready to meet the challenge. "We've been seasoned by the past 21 years," he says. "We've not only survived. We've prospered."

That's certainly true. Good Guys went public in 1986, when it had 12 stores and only \$90 million in revenues. Its tremendous growth since then has been financed without incurring

a penny in debt.

Gunst has already stood off a 1988 invasion in the Bay Area by \$4.1 billion behemoth Circuit City. Gunst responded with a counterattack moving into Circuit City's southern California territory. He did so with flair, opening the country's first 24-hour-a-day, seven-day-a-week consumer electronics store in the chic Beverly Connection mall in Los Angeles. The location was symbolic: 1 proclaimed Good Guys wasn't just price-cutter but also a quality house.

The severe California recession cut



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The New York Stock Exchange, of course. "Before there was ever an information highway, we were exploring new avenues of recording, storage and retrieval of information," says Alan Shugart, Chairman and CEO of Seagate Technology. "As we expand globally, we're headed toward a whole new area of growth and technology, and we need a partner as innovative and forward-thinking as we are to get there." By listing on the NYSE on December 12th, Seagate (SEG) will have the most efficient access to global capital and investors. Simply put, no other market helps hard-driving companies like Seagate get where they're going faster and better than the NYSE. It's going to be a great trip.

NYSE
THE NEW YORK STOCK EXCHANGE

Good Guys' earnings from 93 cents in 1991 to 29 cents in 1992, but Gunst didn't miss a beat. He moved Good Guys into San Diego in 1993; earnings per share recovered to 60 cents.

Aware that California's Mexican-American and Asian-American communities are increasingly affluent, Gunst has placed stores in areas where these communities are concentrated, including a new one near the Mexico border, in Chula Vista, which pulled

Although the business is infested with scam artists, infomercials may yet have a splendid future.

The Wild West of advertising

By Nikhil Hutheesing



Good Guys store in Los Angeles
Electronics for sale around the clock.

business. Good Guys is planning TV commercials in Chinese and Spanish featuring Chinese and Latino actors.

Gunst doesn't underrate the new Best Buy challenge. A price war is inevitable, but Good Guys is defending from a strong position. Its sales staff is among the highest paid in the business. With consumer electronics becoming ever more complicated, intelligent service is a big plus. "They have the best sales service of any consumer electronics chain I've seen in the country," says Ronald Rotter, a retail industry stock analyst with Seidler Cos.

This relatively high level of service costs Good Guys an overhead-to-sales ratio of 23.1%, versus 21.6% for Circuit City and 12.6% for Best Buy. Good Guys must recapture these higher costs by selling more expensive merchandise and by getting a mite more in markups. In a price war, getting these higher margins isn't easy. Apprehension over the Best Buy invasion has knocked Good Guys' Nasdaq-listed stock from 20 last March to a recent 12. In a gesture of defiance against the invaders, Gunst has bought 7,000 shares since March, bringing his holdings to 74,306 shares and 235,000 options.

YOU KNOW those 30-minute commercials masquerading as talk shows you often see on late-night television?

These infomercials, of course, have only one aim: to get you to buy a product. There's a degree of flimflam in all this that attracts plenty of fringe hucksters and shoddy products.

Most infomercial companies don't make the commercials. They buy air time, then figure out how to make money from it. Typically they buy rights to a product, a slicer-dicer, for example, have it manufactured and warehoused, and hire a production company to produce the show and a fulfillment company to take and fill orders. They figure on selling the junk for a big enough spread over its cost to them to recover the costs of the show and the airtime and leave them with a fat profit.

They are, in short, packagers. The problem is their packaging doesn't always work. They need constant product hits and low-cost air time—both hard to come by. Many of them are fly-by-nights, often just one step away from bankruptcy (*see chart, opposite*). At least four of them have taken advantage of gullible investors to make public stock offerings. By and large the stocks are as shoddy as the products they sell.

In the 1960s the Federal Communications Commission put the kibosh on the burgeoning business by limiting the number of minutes per hour that could be devoted to commercials. In 1984 the business was reborn

when the FCC rescinded the 16-minute-per-hour limit.

Among the first to jump in after the limit was lifted was Michael Levey, 46, who currently peddles slicer-dicers and hair extensions on an entertaining infomercial series called Ask Mike. Levey is chief salesman and chief executive officer of Positive Response Television, Inc., which recently raised more than \$6 million by

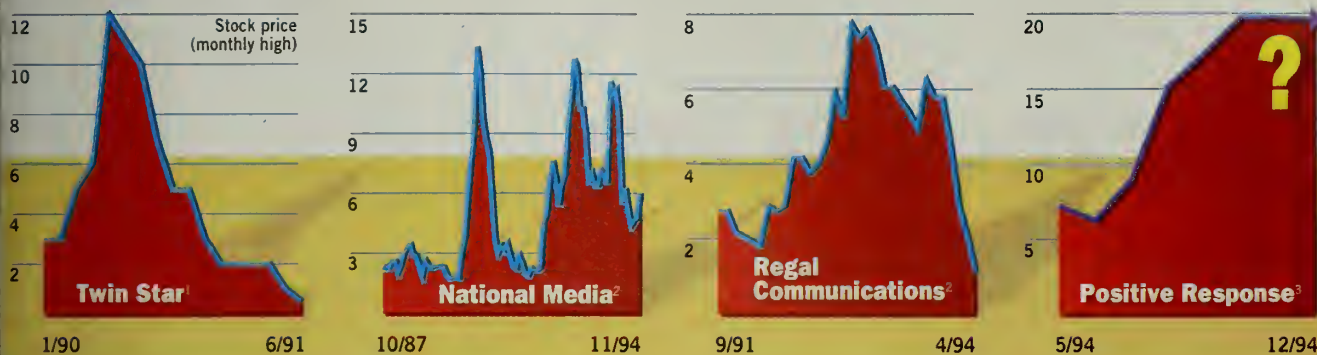


Positive Response's Michael Levey
A talk show after your money.

selling the public about one-third of the company at 12 times 1993 earnings. Despite its questionable value Positive Response has been a ho stock, rising from 6 to over 19 after the offering.

Levey has been around a long time and once produced infomercials for products like a diet patch and a cure for impotence, neither of which worked, according to the Federal Trade Commission. A couple of years back he took advantage of television's power to demonstrate a kitchen mixer that supposedly could crush

Bankruptcy bound?



After rising spectacularly, Twin Star and Regal Communications filed for bankruptcy protection. National Media teeters close to it. Will Positive Response be next?

a whole pineapple in seconds and whip skim milk into a mousse-like dessert. It could not. The FTC made him desist and pay \$275,000 to settle charges.

Another early infomercial player is Arthur Toll, chairman of Regal Communications from 1989 until last September. In 1993 the FTC forced Regal to pay \$3.5 million because its infomercial division, Synchronal, falsely claimed that its products cured baldness and treated cellulite. Later Nasdaq delisted the company, and Regal announced previously unreported losses. Regal filed for bankruptcy in September 1994.

Then there's John Turchi. A former real estate broker, Turchi became chief executive officer of Philadelphia-based National Media in 1990. Its revenues surged from \$32 million in 1989 to \$173 million this year from the sale of such products as the Juice Tiger, a fruit and vegetable juicer, and Sudden Youth Skin Care System. But its earnings sank from \$2.5 million in 1989 to a net loss of \$8.7 million in 1994. The 1989 profit was wiped out in part by more than \$6.5 million Turchi spent on litigation defending his company.

In June 1993 National Media paid \$275,000 to the FTC to settle charges that it made false claims in infomercials, among them that it had a cure for breast cancer.

Turchi, who still sits on the board of directors and owns about 12% of the company's stock, was replaced as

chief executive officer in September 1994 after the company's auditor, Ernst & Young, cast doubt on whether National Media could continue operating.

Lawsuits still loom over the company. One of the latest was filed by ValueVision, a television shopping service that signed an agreement to merge with National Media in March but called off the \$150 million deal in April. ValueVision accuses National Media of myriad wrongdoings, including charging customers' credit cards a week before shipping out their orders. With a list of orders, the lawsuit charges, the company got a letter of credit from a bank, then purchased product and shipped it. Not cricket.

Turchi's successor is Mark Hershorn, a former president of the company whom Turchi had once fired. Hershorn raised \$5 million in long-term debt from a private investor and an additional \$10 million of equity capital, mostly convertible preferred stock with warrants. If all the warrants are exercised, the offering could dilute current shareholder equity by over 20%.

Is this all there is? Are infomercials just a happy hunting ground for sleazy companies selling useless gadgets? Not necessarily. Infomercials have great potential: Many products can't be sold properly in a 30-second network blurb; television offers some advantages that print lacks.

Some big, smart companies are

testing the business. One is Boston's Fidelity Investments, which runs a 30-minute infomercial featuring ordinary people discussing their financial goals. It's soft-sell stuff. No Fidelity mutual funds are hawked, but if a viewer calls the toll-free number, he gets a Fidelity Investments planning kit. Michael Heinz, a Fidelity senior vice president, says others may be in the works.

Apple Computer began buying media time in November for its infomercial featuring the Performa line of computers. The infomercial educates consumers on uses of computers and offers a toll-free number for more information. Texaco, Philips, Sega of America and the Hoover Co. are all experimenting with the format.

So, too, are the television shopping networks. QVC and Home Shopping Network have started infomercial divisions, and in November two cable operators, Cox Cable Communications and Jones International Networks, decided to form a 24-hour infomercial channel. Advertising agencies are also showing interest. The infomercial format lets them supply viewers with more information than a 30-second commercial and does it in an entertaining way. The audience is self-selecting, in that only people at least potentially interested in the product will bother to watch.

So don't just judge this business by the sleazeballs in it. Last year infomercials generated almost \$1 billion in product sales, and that figure could grow by 50% a year. There will always be patent medicine salesmen in the trade, but they will be a dwindling part of the business.

Bernard Taylor is proving that a drug company doing no basic research can live very nicely on the fruits of other companies' research.

Cheaper to buy than invent

By Peter Fuhrman

TOGETHER, THE WORLD'S big pharmaceutical companies are investing \$30 billion a year on drug research and development. Upstart Medeva Plc., a nine-year-old British pharmaceutical firm, spends zero on basic research. Yet Medeva's revenues rose by around 30% in 1994, to \$400 million; pretax earnings grew by a similar percent, to \$90 million.

Medeva Chairman Bernard Taylor spends money all right—over \$600 million in the last four years. But the money wasn't to build a new line of drugs. It was to buy smaller U.S. and British drug companies, and a range of slow-selling drugs and vaccines developed and owned by four larger drug companies: Glaxo Plc., Smith-Kline Beecham Plc., Wellcome Plc. and Merck & Co.

This buy-don't-invent strategy clearly works. In the U.S., where Medeva gets 60% of its revenues and 75% of its pretax profits, sales have doubled over the last three years, fueled not only by acquisitions but also by big rises in sales of Medeva's drugs.

Taylor doesn't buy just any drugs. He concentrates on buying drugs that treat a narrow range of ailments, especially bronchial conditions like influenza and asthma. "By targeting a few clinical areas," Taylor explains, "[Medeva's] salesmen can focus on doctors treating those conditions, and usually have more success with those doctors than salesmen promoting a wider range of drugs."

Taylor, 59, began his business career as a drug salesman and worked for Glaxo for 27 years, eventually rising to chief executive. He left in 1990 and joined Medeva. "I saw Me-

deva as a new way to build a pharmaceutical company," he says.

Having run Glaxo, Taylor understood that large drug companies were eager to sell off drugs with yearly sales below \$100 million or so. Taylor's first big move was buying Wellcome's vaccine business for \$30 million in 1991. Medeva is now Britain's only manufacturer of vaccines for humans.

After raising \$235 million in the stock market in 1990 and 1991, Taylor paid \$77 million for a small Texas pharmaceutical company called Adams Labs, which had a small portfolio of respiratory drugs. Since then, Me-



medeva has doubled the number of salesmen at Adams, and has added two more major respiratory disease drugs for them to sell. Two years later, in 1993, Taylor enhanced Medeva's U.S. distribution strength by spending \$54 million for a small Boston-based pharmaceutical company that specializes in asthma drugs.

Anyone who buys as many drugs and drug companies as Taylor has is bound to stub his toe. In July 1993 two of Medeva's U.S. acquisitions ran into trouble with manufacturing processes and inventory control, and the stock plunged 55% in one day, from

\$14 to \$6.25. The shares have recovered to a recent \$10.25, giving the company a market cap of over \$650 million. But Taylor is still unhappy about what he calls a "huge overreaction, mainly by British shareholders." He adds he's pleased that U.S. investors now own 40% of the equity. Mutual fund house Franklin Resources and GE's pension fund own 12% and 7%, respectively. Founder Ian Gowrie-Smith has sold his 2.9-million-share stake at around \$10 per share. Other insiders have also been buying.

Ironically, one of the U.S. compa-

nies that caused the 1993 share collapse, MD Pharmaceuticals, now looks like Taylor's single best *buy*. Taylor bought the \$15.5 million (sales) company for \$75 million in 1991. Based in Santa Ana, Calif., MD Pharmaceuticals is one of only two manufacturers licensed by the U.S. Drug Enforcement Agency to produce methylphenidate, an amphetamine used here mainly to treat hyperactive children. After Taylor raised prices for the drug and improved distribution, last year the company earned about \$30 million, pretax, on sales of \$75 million.

The big drug companies are beginning to see Medeva as a way to squeeze more sales from drugs that don't qualify as blockbusters. Last year Burroughs Wellcome, the U.S. subsidiary of Britain's Wellcome Plc., decided to forgo its own U.S. sales force and use Medeva as the exclusive marketer of its new antihistamine drug. Merck & Co. also sold Medeva two of its slower-selling steroid drugs for respiratory diseases last year. Terms: \$8 million plus royalties from sales by Medeva.

Taylor paid \$12 million for the world rights to a small Swiss research company's hepatitis B vaccine. Medeva then took up the patent fight with Boston-based Biogen, Inc. The battle has ebbed and flowed, but Medeva expects to begin selling the vaccine in Europe in 1996 and in the U.S. in 1998. Sales could hit \$100 million a year within five years, according to London analyst Mark Brewer, of Crédit Lyonnais Laing.

Coming in 1995: a new type of inhaler to deliver doses of the best-selling asthma drug, salbutamol. Glaxo invented the drug, but its U.S. patent has run out. Analyst Brewer anticipates annual sales of \$75 million for the new salbutamol inhaler.

"Salbutamol is a gold-standard drug," says Taylor. "Even with all the money being spent on research, I just don't see a better asthma treatment coming along for the next 20 or 30 years. But it is possible, especially for an entrepreneurial company, to come up with better ideas on how to deliver the drug."

"I am more convinced than ever that there's still fertile ground in the pharmaceutical business for newer, smaller companies like Medeva." ■



Frederick Cantor

Medeva Chairman
Bernard Taylor
**Says the former
chief executive
officer of
pharmaceutical
giant Glaxo:
"Our salesmen
have more suc-
cess than those
promoting
a wider range
of drugs."**



Lufthansa could have called on any bank to help them further privatize in October, 1994. But then, Lufthansa doesn't like turbulence. So they called their preferred "Tower" to arrange and lead the deal: Dresdner Bank.

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Only 1 Medicare client in 12 belongs to an HMO. Why?

"All this for nothing?"

By Suzanne Oliver



Les Oliver/Black Star

Retirees meet at a diner where an Oxford Health Plans representative pitches Oxford's Medicare plan

Just in the New York City area, 3,000 new members a month are signing up.

DOMENIC DEFALCO, a 79-year-old retired grocer, showed up at Oxford Health Plans' presentation at the St. George Clipper diner on Staten Island, N.Y. He went for the free breakfast, but by the time he had finished his bagels, he was ready to sign up.

Oxford Health Plans, a Norwalk, Conn.-based health maintenance organization, was pitching a health plan that offered DeFalco unlimited hospitalization, a \$500 annual drug benefit and \$10 doctor visits with no premium and no deductible. The usual, fee-for-service variety of Medicare covers limited hospitalization and no prescription drugs.

"All this for nothing?" thought DeFalco. "It can't be true."

But it was true. By signing on,

DeFalco and his 75-year-old wife, Viola, saved the \$1,380 they were spending on a supplemental Medicare insurance policy and another \$500 apiece of what they were spending on cholesterol-lowering drugs.

How can Oxford offer the DeFalcos such a sweet deal and still make a profit? For the same reason it and other HMOs can cut insurance costs in the private sector: They restore some sanity to the open-ended costs of fee-for-service medicine.

As a Medicare substitute, the Oxford HMO plan cuts costs by encouraging preventive care, reducing hospital stays and avoiding Medicare red tape. HMOs have shown they can cut hospital stays by 17% on average for Medicare patients, substituting cheaper

nursing facility or home care. HMOs can ignore Medicare red tape such as requiring patients to spend three days in the hospital before receiving home care.

An authoritative study shows that HMOs achieved the same in-patient outcomes as fee-for-service facilities. It also found that HMOs increased the odds that a beneficiary receives an annual physical examination.

HMOs can also widen the range of doctors available to Medicare patients. "I couldn't find a gynecologist who would see a Medicare patient,"

says Dr. Michael Kramer, a Manhattan doctor who joined Oxford's network. But gynecologists in Oxford's network are happy to see Oxford's Medicare clients because Oxford pays better than the government.

Given the savings and superior service, the government should be trying to expand HMO use by Medicare recipients. It isn't. Instead, it has set up rules that render most of the country unattractive to HMOs. Medicare rules dictate an HMO can be paid 95% of what Medicare estimates it would spend on each beneficiary in a fee-for-service setting. The rates are set county by county based on Medicare spending in that county over the most recent five years for which data are available. This fixed formula yields

HMO rates ranging from \$8,086 a year per beneficiary in Staten Island, N.Y. to \$2,459 in Costilla County, Colo.

Thus, Oxford wants the DeFalcos because they live on Staten Island, where Medicare pays maximum rates. If the DeFalcos lived in Colorado, an HMO would be reluctant to accept the stingy rates Medicare pays there. Result: Nationwide, only a twelfth of all Medicare participants are in HMOs. This harms both Medicare clients and taxpayers.

Even the savings to the government from the 95% formula is illusory. That's because, even though Medicare HMOs have to offer the same deal to all comers in a given county and cannot turn down applicants, there is a natural self-selection going on.

Among Medicare patients, HMOs cut hospital stays by 17%.

Healthier patients are more willing to give up their regular doctors and join an HMO. Thus, the government is left with the sicker patients in places like Staten Island. Indeed, says Randall Brown of Mathematica Policy Research, because of this winnowing process, the HMO option probably pushes up Medicare spending 6% for Medicare HMO enrollees in those counties.

What could the federal government do to persuade more Medicare clients to join HMOs? Enact legislation to open the Medicare HMO business to competitive bidding, just as corporations do. "I could do better in terms of price if I could sit down with the HMOs in an area and play them off one another, which is essentially the way private buyers do it," says Bruce Vladeck, administrator of the Health Care Financing Administration, which administers Medicare.

Having said this, Vladeck admits he is dreaming: "It is hard for government agencies to do that. Legislators are too afraid of favoritism or corruption." Too bad that the media aren't as diligent in pursuing large-scale government waste as in chasing petty corruption.

A lot of money was lost building private toll roads in the 19th century. There is every reason to believe that the idea will fare a lot better in the 21st century.

Bringing back the turnpikes

By Peter Samuel

ON BOTH SIDES of America an old idea is being revived to get roads built without further straining public finances. By the end of 1995 private sector toll roads are due to open in Loudoun County, Va. and Orange County, Calif.

The \$126 million California project involves four new highway lanes 10 miles long in the median of the Riverside Freeway. The freeway is a heavily congested eight-lane link between the bedroom communities of

Riverside County on the eastern end and Orange County and Los Angeles to the west.

Using the freeway during rush hours means stop-and-go driving and endless frustration, making commuting a nightmare. When the tollway is built down its middle, those willing to pay will be guaranteed a smooth trip and up to 30 minutes saved. The toll road is to be a passenger-vehicle-only facility that will bill motorists' prepaid transponder accounts by radio signal,



Construction under way on SR-91

Time-variable pricing will guarantee a fast ride on a private toll road down the middle of the congested Riverside Freeway in Orange County, Calif.

so there won't be any toll booths to slow traffic. As a kind of limiting device, programmable toll rate signs at the entryway to the express lanes will be changed often as traffic on the tollway waxes and wanes. During the rush hour, driving it may cost \$2.50, and in off-hours as little as 25 cents.

On the East Coast, the \$325 million Loudoun County, Va. toll road is being built west of Washington's Dulles Airport, 14 miles out to Leesburg, population 19,000. This project is a statement of faith, for it runs through relatively undeveloped countryside and, skeptics say, for most of the rest of this century it will be pretty safe for the foxes and rabbits to cross it. But development is coming this way, and the new highway is

Despite difficulties, the toll road movement is on the move.

certain to help it along. In a sense this road is like the western railroads constructed in the last century, which were built through largely open country that the rails helped fill up.

It is assumed that the California project will be profitable from the day it opens. The Virginia project is more on the come. "SR-91 is the kind of project that will make money right away," says Barry Gold, who arranged the financing for the \$126 million California project at Citibank and at Lehman Brothers, where he now works. Gold raised \$65 million in 14-year variable-rate bank loans, drawing on Citibank as well as two French banks, BNP and Société Generale. Another \$35 million in 24-year debt is now held by Cigna. Equity in the project, \$26 million, was provided by California Private Transportation Co., a limited partnership led by Peter Kiewit Sons', Inc. (*FORBES*, Oct. 24, 1994), the large Omaha-based construction company; limited partners are Granite Construction Inc., a Watsonville, Calif. builder, and Cofiroute Corp., a French toll road company.

The Virginia road, certain to run in the red for at least several years, was more difficult to sell to lenders. Goldman, Sachs couldn't do the deal, and

several others failed as well. Banks wouldn't lend because they don't like to go out for more than 12 years and this project needed longer-term money. The sponsors, Toll Road Investors Partnership II L.P. (TRIP II), finally hired a local firm, C.C. Pace Resources Inc. of Fairfax, Va., that has specialized in novel financing for cogeneration projects and gas pipelines. Pace brought in a number of insurance companies, including three lead companies—Cigna, Prudential and John Hancock—for \$193 million in 32.5-year and \$86 million in 29-year loans. But they did so only after the equity partners added \$40 million of "standby equity" to the \$40 million of cash equity that they had already contributed.

The equity partners in Toll Road Investors are Shenandoah Greenway Corp., the family company of Dover Corp. heiress Magalen Bryant; an Italian toll road company, Autostrade International SpA; and road builder Brown & Root, of Houston. The Bryants have put \$50 million of family assets at risk. Magalen Bryant's son, Michael Crane, who is chief executive, says there's no way the family would go through such hellish protracted negotiations again.

At last the road, Dulles Greenway, is going forward. From a collection of trailers housing all the contractors, Charles Williams, a former major general in the U.S. Army Corps of Engineers, directs a 10-hour-a-day, six-day-a-week campaign involving 500 workers and 250 machines building some 36 bridges and 14 miles of dual expressway. Fifteen months into the job, they are over three-quarters done and may well beat SR-91 to opening ceremonies.

Will these projects make good money for the equity owners? The precedents aren't entirely reassuring. In the early days of the republic, private tollways provided the main form of intercity transportation. By some estimates, more than a third of the corporations formed in the first half of the last century were tollways. Some involving wooden plank construction were hailed as a great technological breakthrough and hyped as terrific moneymakers. But few made much money and many went broke. The old Leesburg Pike from Alexan-

Michael Crane of Toll Road Investors Partnership
Getting his \$325 million toll road in Loudoun County, Va. to construction involved "hellish" red tape.

Bridges Unlimited

dria was incorporated in 1809 with a capitalization of \$84,000, opened in 1820 and paid dividends in only 6 of the 27 years it operated. The combined dividends represented an annual return of well under 1% on the investment.

The old Leesburg Pike had its high year for tolls in 1822—\$5,475—and after that went slowly downhill to \$1,361 in 1838. Toll keepers' average wages (there were two to three) were \$150 a year, the treasurer took 2% of tolls, and the president of the company made do with \$100. There was a superintendent until 1834, when he was apparently let go as an economy measure.

Cheaters got around tollgates. And competing technology—the steam railroad—came along to supplant the dirt pikes. Governments were fickle.



ment money aren't really "free." They are paid for with taxes. There's a lot to be said for paying tolls rather than taxes. With modern electronics it is simple to use variable tolls as an instrument to regulate traffic flow.

What about red tape? Robert Martinez, Virginia's secretary of transportation, says he wouldn't put anyone through what the Dulles roadway organizers were put through. His administration is supporting a bill to exempt future projects from utility-style regulation.

Certainly the need for private road building capital is there. Texas Transportation Institute, which surveys gridlock annually from Federal Highway Administration data, says the 50 leading U.S. cities for which it examines data are adding only 1,016 lane/miles of freeway a year, compared with the 1,680 needed annually just to stop congestion from getting worse. In 1991, the latest year for which estimates are available, congestion wasted 4.6 billion gallons of gasoline and cost motorists in total \$44 billion.

So, despite the difficulties, the toll road movement is on the move. California Transportation Department's Carl Williams says two more private toll road projects are well on the way to construction. By the end of this year, he says, work should start on SR-125, a 12-mile tollway east of San Diego to the Otay Mesa border crossing to Mexico. And sometime afterwards, he foresees a start on SR-57, 10 miles of private expressway elevated atop the Santa Ana flood channel in the middle of a built-up area in Orange County.

Washington State is negotiating private franchises on a bunch of major bridge and highway enlargement projects in the Seattle-Tacoma metro area. Washington State is even negotiating a private contract to phase in time-variable tolls on major highways in the metro area.

giving way to pressures to exempt various classes of travelers from tolls. Already SR-91 has made a concession by proposing free rides to car poolers.)

The red tape involved in building 20th-century toll roads is even more intimidating than the precedents. SR-91 cost more than \$7 million in studies, lawyers' and consultants' fees, and staff time. The franchise agreement is a book of 155 pages. The Virginia project was even worse—seven years and preconstruction development costs of \$68 million.

Not surprisingly, prospective investors are treading warily. Marie Fioranonti, senior vice president at Prudential Insurance Co. of America, says her company has looked at a number of other toll roads in the U.S. and Mexico. "Some we haven't rejected.

They just aren't ready. We liked the Dulles highway best of those that were ready. The Dulles corridor is in an area with a lot of growth potential, and since there is already a successful toll road halfway there, we know our potential customers are willing to pay tolls. Elsewhere you can't be so sure of how tolls will be accepted." Thus, she says, Prudential declined to participate in SR-91 because it was worried about the southern California economy, among other things.

But times are changing and voters are beginning to realize private enterprise can do things more effectively than government can—something people did not yet understand in the 19th century, to say nothing of most of the 20th century. Moreover, people are starting to understand that roads and other facilities built with govern-

The welfare of children is being sacrificed to politics and to the resentments of adults.

Children as footballs

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ORPHANS AND ORPHANAGES have been in the news recently on both sides of the Atlantic. Western couples on their way to Russia to adopt Russian orphans have suddenly been told that a new policy puts these adoptions on hold. No one knows when—if ever—they will be allowed to adopt the children they were once told were now ready for them to take into their homes.

Russian nationalists do not like having Americans or other Europeans adopting their children. Children's opportunities for a normal home and family are being sacrificed to the embarrassments and resentments of adults.

It has long been the same story in the United States, where minority social workers and politicians have not only prevented white couples from adopting minority children, but have even devastated these children's lives by ripping them away from white foster parents who are often the only parents they have ever known.

Using children as political footballs is even uglier than most of the ugly things that happen in politics. After House Speaker-elect Newt Gingrich's discussions of welfare reform options, so many politicians and editorial writers have seized upon the word "orphanage" to make political

hay that there is little hope of a rational public discussion of the very serious issues involved in our present welfare tragedy.

At the heart of that tragedy is children having children. Babies born to teenage girls, whether black or white, have lower birth weights, lower IQs, and a greater chance of being premature or of dying in infancy. These children are also more likely to be neglected or abused, and in later life to become problems or disasters to those around them.

It would be utopian to think that there is some easy way out of all this, with no one getting hurt. Plenty of people are being hurt badly as things stand now. The big question is: Which way will the pain be worse?

Unfortunately, the media's love of dramatizing individual sob stories may make it impossible to make a rational choice. If a successful policy that the media pundits don't like produces only seven people who are worse off, each of those seven people will be featured on television news every night for a week—and presented as if they were typical.

As long as irresponsible teenage girls get an automatic subsidy for having babies, there is little hope of changing the basic pattern. Nor can we realistically expect any of the social miracles that are so freely promised by those who think that government programs can produce "parenting skills." The very phrase itself is an evasion of the bitter reality that attitudes are the problem, not "skills."

In the liberals' world of "virtual reality," all problems are caused by things beyond the individual's control—and can be solved by having government come to the rescue with the taxpayers' money and the social programs of the anointed. When

mothers are too irresponsible to get their children vaccinated, this becomes transformed into a question of cost, of "access," or anything other than what it is.

How do you ensure that children get taken care of without giving their mothers a free ride? There are any number of possibilities that could be explored, with orphanages being a last resort for the worst cases.

Nobody believes that an orphanage is better than a normal home. But we have to make our choices among the alternatives actually available—and some of those alternatives are pretty hideous. In some cases, a normal home is nowhere on the horizon and an orphanage may be the best of a bad set of options.

It is either silly or dishonest to compare the cost of caring for a child in an orphanage with the cost of a year of college, as some clever people are doing. That same ridiculous comparison has been made as regards the cost of keeping someone in prison. But these are not the alternatives.

The real alternative may be to leave a child to be abused by a rotten mother and to grow up to become a lifelong parasite or criminal. It is

At the heart of the welfare tragedy is children having children.

worth paying a lot to avoid that.

Hillary Clinton's claim that proposed welfare reforms would mean putting children in orphanages because their mothers cannot find jobs is more of the liberals' virtual reality. Nobody advocates any such thing and it is truly stretching the imagination to conjure up a picture of alcoholic, abusive and irresponsible girls trudging bravely from employer to employer, looking in vain for work.

Nobody wants children to suffer. The only question is which way they will suffer more. That is a tough question and finding some viable answers will require some very careful study, soul-searching and hard choices.

Virtual reality, political cheap shots and individual sob stories are not going to help.

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To be a really successful investor, says Sir John Templeton, you must master a simple but counterintuitive principle. He calls it . . .

The principle of maximum pessimism

By Lawrence Minard

WAY BACK in the 1950s, long before it became fashionable—or even conceivable to most people—Sir John Templeton and his Templeton funds were scouring the entire world for investment opportunities. Let others be sidebound in their beliefs that the U.S. was the only safe place to invest. Thus were the Templeton funds early and highly successful investors in Japan as far back as the mid-1960s, long before anyone thought that the island nation would become an economic powerhouse. In the early 1980s Templeton invested heavily in Mexico, another astounding pioneering feat.

It's no stretch to say that there is a strong connection between Templeton's willingness to venture abroad and his lifelong interest in things of the spirit: If all human beings are fundamentally brothers, why shouldn't Japan or Latin America be as good a place to invest as the U.S.? This sense of ultimate humanity made Templeton a pioneer in allocating assets around the world, according to where he and his associates perceived the best investments to exist.

It was Japanese stocks in the mid-1960s when the Nikkei index was around 1,500; even after a 50% fall from its December 1989 peak, the Tokyo index is now at 9,711. But he would concentrate in the U.S. market when he thought it relatively cheap. In November 1978 Templeton urged *FORBES* readers to follow his lead in buying shares of Ford Motor Co. (Nov. 27, 1978), at a time when many people thought Ford was heading straight for Chapter 11. Ford has since appreciated manyfold. Templeton early on developed an ability to see the world as a whole, not as a collection of pieces.

This sense of global citizenship has served Templeton's clients well. A \$10,000 investment in the Templeton Growth Fund when it was started in 1954 has compounded to over \$2.3 million (assuming steady reinvestment of dividends and capital gains distributions). Compound rate of return over 40 years: 17% per annum.

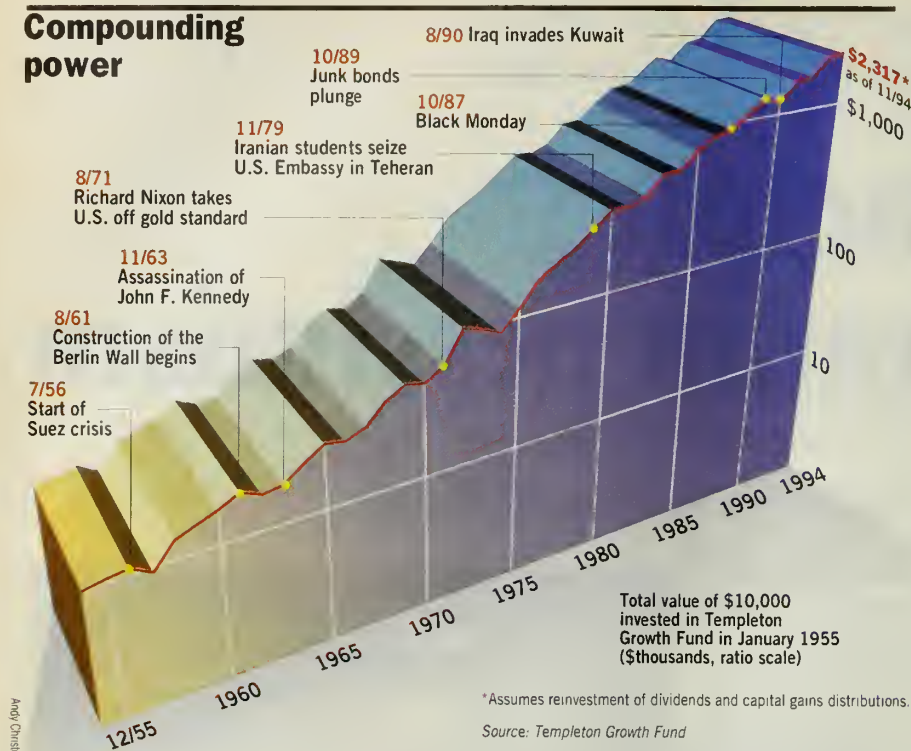
We interviewed him last month in the airy living room of "White Columns," his hilltop mansion in lush Lyford Bay, the Bahamas. The Winchester, Tenn.-born John Marks Templeton—a British subject now and knighted by Queen Elizabeth—no longer runs the Templeton funds



Sir John Marks Templeton

"There's only one reason a share goes to a bargain price. . ."

Compounding power



Throughout his career Templeton has bought stocks in the face of despairing news. "This is not an especially easy time to invest," says Templeton today, "but neither is it especially hard."

and their \$35 billion in assets, having sold the management company to the Franklin Group in 1992. But fit and sharp at 82, he still follows markets avidly even while devoting much of his time to promoting his passion for encouraging people to take more interest in the spiritual side of life (*see box, p. 71*).

When we last featured Templeton on our cover, in 1978, the Dow industrials were around 800, the economy was stagflating and some business publications were proclaiming the death of equities. Templeton's advice was unequivocal: Buy U.S. stocks. They were then among the cheapest in the world. If U.S. stocks did no more than get back to their traditional levels of around 14 times earnings, we would have a Dow of around 2800 by 1986. That's what he said. It sounded ridiculous at the time. Smart people were buying gold and collectibles and real estate, not stocks.

Would stocks ever get that high again? They always do, was Templeton's calm answer. And indeed they did.

But it's 1995 and U.S. stocks are no longer cheap by historical standards. On the other hand, the economy looks pretty strong. So, of course, we asked John Templeton: Where are the good buys now?

"People are always asking me where is the outlook good, but that's the wrong question," he responds. "The right question is: Where is the outlook the most miserable?" Templeton calls this approach to investing "the principle of maximum pessimism." Others might call it contrarianism. He explains it this way:

"In almost every activity of normal life people try to go

where the outlook is best. You look for a job in an industry with a good future, or build a factory where the prospects are best. But my contention is if you're selecting publicly traded investments, you have to do the opposite. You're trying to buy a share at the lowest possible price in relation to what that corporation is worth. And there's only one reason a share goes to a bargain price: Because other people are selling. There is no other reason.

"To get a bargain price, you've got to look for where the public is most frightened and pessimistic."

Not many of us are temperamentally equipped to buy into a country when the mobs are in the streets or the currency is collapsing amid runaway inflation. Templeton grants it: The art of successful investment is counterintuitive. The time to buy is when everyone is scared and you are a bit scared yourself. Templeton cites Peru. A decade back the country was a mess. Those mystical Marxists/Maoists, the Shining Path, held the country in terror. Money and middle-class people were fleeing the country.

In the mid-1980s Templeton became intrigued by Peru. He knew his history and remembered that in the 1930s this natural-resource-rich country had an active stock market—bigger, in fact, than Japan's at the time. But by 1985 the combined value of all publicly traded Peruvian stocks came to less than \$400 million, about the capitalization of one midsize U.S. biotech stock. "That was for me a point of maximum pessimism," says Templeton.

He hired a New York investment professional, Peter Gruber, to spend several months in Lima, figuring which stocks to buy and how to buy them. At the time, foreigners were barred from the Peruvian market, so Templeton formed a local corporation and invested around \$2 million of his personal money through it.

Lima's Bolsa de Valores index, in U.S. dollar terms, was then at around 50. Unexpectedly, the tide turned against the killers and a new president restored confidence in the country. A few years ago Templeton began to pull some of his profits out of Lima. The Bolsa index was over 1000—up twentyfold—and on its way to a recent 6800. Current capitalization: \$8.2 billion. Templeton's \$2 million investment probably grew to well over \$20 million.

"Peru is a good illustration that when you're buying publicly traded investments, you have to do the opposite of what you do in all other aspects of life," says Templeton. "That's why successful investing is so difficult."

Though it sounds obvious today, investing in Japan in the early 1960s was no less difficult than in Peru. Recalls Templeton: "The Tokyo market was selling for 4 times earnings and U.S. stocks were selling at 16 times, so Japanese stocks were 4 times as cheap as U.S. stocks. I was able to buy some of the finest Japanese growth companies

Better buys abroad

SIR JOHN TEMPLETON withdrew from actively managing the Templeton mutual funds a few years ago, turning over direction of flagship Templeton Growth Fund and four other funds to his chosen successor, Mark Holowesko, now 34. So far Templeton has no reason to regret his choice of successors: Templeton Growth was off 10% in 1990, but roared back 33% in 1991 and has since climbed another 38%. For 1994, a year most investors would sooner forget, Templeton Growth will show a slight gain.

Holowesko agrees with Templeton that a bear market in U.S. stocks is probably around the corner, but he says he's finding lots of bargains abroad among the 860 stocks he and his analysts follow in 38 countries. The list of stocks approved for his funds to buy has grown from 80 names a year ago to 180 today; the sell list has shrunk from 160 companies to about 70.

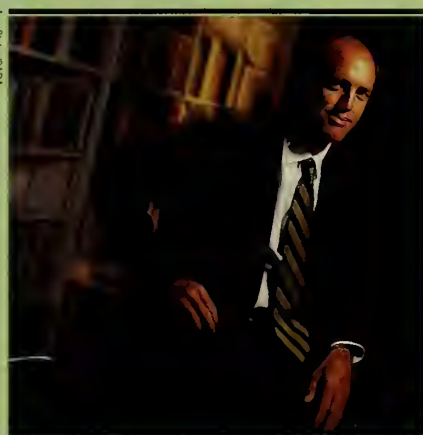
"We like banks, real estate investment trusts, some builders," he says. That's because, like Templeton, Holowesko feels interest rate hikes have about run their course. He mentions four Pacific Rim banks: National Australia Bank, Australia & New Zealand Banking Group, Philippine National Bank and Hongkong & Shanghai Banking Corp. Each is down sharply from its 1994 high and pays a cash dividend of 4% or more. Holowesko has also been buying in small

quantities two- and three-year Australian government bonds, now yielding about 10%.

In the wake of last year's collapse in Chinese stocks, Holowesko added Hong Kong-based Sime Darby Hong Kong Ltd. to the approved-to-buy list. Sime Darby is 25% off its 1994 high, but, among other things, it owns the

he likes is Merrill Lynch; he was buying the broker before the Orange County fiasco exploded, and used the bad news to buy more—maximum pessimism. He has been buying two U.S. companies that are proxies for growth in emerging markets: Boeing and insurance giant American International Group.

Ann Saito/SABA



Mark Holowesko, the Templeton funds' director of research

He worries that liquidity will dry up and bring on a bear market, yet says his buy list is growing. "We're bottom-up stock pickers," he explains.

Caterpillar franchise for the east coast of China; this should be pure gold once China's bureaucrats stop bickering and infrastructure projects get rolling again. Currently priced at \$HK9 a share, Sime Darby pays an 11% dividend and trades at 7.5 times last year's earnings—and at 2.5 times Holowesko's estimate of earnings over the next five-year cycle.

In Europe Holowesko has been buying DSM NV, a Dutch petrochemical refiner, and Volvo (FORBES, Dec. 19, 1994). The carmaker, he notes, sells for 2½ times its operating income.

Although he anticipates weakness in U.S. markets after so many bull years, Holowesko has about one-third of his portfolio committed here. Among the U.S. stocks

Any big surprises? Yes. Shipping. "Very depressed," he says—more maximum pessimism. Yet world trade is growing, few new ships have been built and the cargo fleet's average age has advanced to the high teens, only a few years from the end of a typical ship's useful life. "What's got to give is shipping rates," predicts Holowesko, who says his buy list now includes such shipping companies as American President Cos. and Nedlloyd Lines.

Given the Templeton views about the likelihood of higher inflation rates, it's less surprising that Holowesko is fairly heavily committed to the stocks of companies that produce commodities. "A lot of commodity prices have recovered, but not the stocks of the producing

companies," he opines. Oil companies look particularly attractive: "Today 2 billion Indians and Chinese consume 1 barrel apiece per year. In Taiwan, it's 11 barrels per capita; in the U.S., 33 barrels. If India and China get to just one-half the Taiwanese level, the incremental demand would equal OPEC's entire current production." His favorite oil plays: Royal Dutch Petroleum for conservative accounts and Texaco for slightly more aggressive investors.

Holowesko thinks Russia is ripe for investment—things are so bad they can only get better. But Russia presents a problem for him: There is no stock custody system, and Russian securities now available are actually synthetic notes issued by CS First Boston, Salomon Brothers and other brokers active in Russia. "Technically those securities are derivatives," says Holowesko, "and my funds are not allowed to buy derivatives." In the spring a Templeton Russia fund will be launched; run by Holowesko's Hong Kong-based colleague Mark Mobius, it can buy derivatives.

Holowesko echoes Templeton's view of Japan: negative. "Japan used to have a huge cost-of-capital advantage," he says, "but now their cost of capital is rising and the returns on capital are falling, so they're going to have some problems. And their stocks are too expensive anyway. If you show me a Japanese stock today, I can show you a cheaper stock in the same industry somewhere else." —L.M. ■

at three times earnings. I was criticized. People said, 'Don't you know the Japanese market is a mess, with a total capitalization less than IBM's?' I said yes, but I'm a bargain hunter, so we bought for several years. Then years later Tokyo got to 33 times earnings, and we found better bargains in other places."

The principle of maximum pessimism pointed Templeton to Ford Motor in 1978. In those days Ford was hemorrhaging money; the stock had plunged from over \$6 a share (adjusting for splits) in 1972 to \$4 a share in November 1978. But Templeton understood the automotive age had not ended and that Ford would remain a major player. His funds accumulated a huge position. They were early and bought more on the way to a 1982 low of \$2 a share—then watched the stock run to \$30 by 1988.

Where does the principle of maximum pessimism point as 1995 dawns? Not to the U.S. John Templeton doesn't see many bargain-priced U.S. stocks, not after almost five years of nearly straight-up markets. Though he is too wise to try calling dates, Templeton suspects New York is about due for a bear market if we are not already in one.

What about those collapsing Mexican stocks? "I wouldn't be in a hurry on Mexico," Templeton counsels. "When something happens so suddenly and sharply, the low point usually isn't reached for several weeks or months. It takes people a while to recover their nerve."

But scanning the world horizon, he does see some bargains. He ticks off a few: Australian real estate investment trusts; closed-end funds specializing in Czech Republic stocks; the U.S. dollar; emerging markets, Russia and China, in particular. (For some stocks that Templeton funds are currently buying, see box, page 69.)

Emerging markets? Isn't that yesterday's story? Haven't

"When you ask if Japanese stocks will get back to their highs of 1989, I think they may not for a long time."

investors in those markets been bloodied over the past year? Yes, says Templeton, and that is precisely the point: maximum pessimism. "One thing an investor should always do," he says, "is ask: Where has there been a major bear market? Since World War II there have been ten bear markets in the U.S., yet in not one of them has the market gone down more than 35%. But in the last five years many countries have had bear markets that have gone down 50%." He's saying, of course, that for those with the stomach for risk, these markets are worth playing when they've gone through a severe shakeout.

He reels off the names of countries whose markets have dropped by 50% or more, peak-to-trough, over the last five years: Taiwan, South Korea, Thailand, Indonesia, Finland, Australia, Portugal, Spain, Italy, Turkey, Greece, New Zealand. "And China was off 70% in the first seven months of 1994 alone," Templeton says.

Japan? Nope. Japanese stocks are down nearly 50%, and

Templeton thinks they should be down much more. This is an important point: It's not enough for a market to be way down; there must be good reasons it might go up. Such reasons exist for the developing countries: They have tremendous long-term prospects. But Japan, despite the shakeout, is still too high.

Templeton, though he doesn't use the term, is big on risk/reward ratios. Peru was very risky, but the potential rewards were so great they made a compelling case for taking the risk. So with China and Russia. Not so with Japan.

Take the U.S. market in 1978 when Templeton told *FORBES* readers to buy, buy. Memories of the 1974-75 bear market were still painfully fresh. The Dow industrial stocks were selling at just seven times earnings. Templeton argued that by the mid-1980s inflation (then 12% per annum) alone would double earnings, and that the Dow's earnings multiple would rise again to its long-term average of 15 as bear market memories faded. It went to 15 and kept going as deep pessimism gave way to blithe optimism that stocks could go in only one direction: up.

With the Dow now at 18 times earnings, there's a lot less upside and a lot more downside, too. The risk/reward ratio has shifted. Maximum pessimism has given way to heavy—if not maximum—optimism.

The bargains he does see are almost all overseas. Take those depressed Australian real estate stocks. "I think real estate investment trusts in Australia are bargains," says Templeton. "They've had a very difficult time, but I think we're now past the point of maximum pessimism in real estate in Australia. There has been very little building, so vacancies are now falling and the real estate people can charge full rates of rent without concessions. And most of the big companies pay cash yields of 8%." Some specific names culled from the indispensable research published in *Morgan Stanley Capital International Perspective: General Property Trust*, which is 40% below its alltime high; Schroders Property Fund, off 32%; Westfield Trust, down nearly 20%. All yield 8% or better.

Another battered group that interests Templeton is closed-end stock funds specializing in the Czech Republic. "The Czech market as a whole is about average," says Templeton, "but the average closed-end fund in the Czech Republic is 60% below liquidating value. I don't know of any other nation right now where closed-end funds are that low. The greatest number of closed ends are in the U.K., and the average discount there is only 15%." (The Czech Republic fund trades in the U.S., Czech Slovak Investment Corp. in London.)

Russia? Templeton sees bargains there. This spring Merrill Lynch will bring out a Templeton Russia country fund; its stocks will be picked by Mark Mobius, who supervises several Templeton emerging markets funds from Hong Kong.

Yes, Russia makes Templeton nervous. "The Russian people don't understand basic things we take for granted, things like private ownership, advertising, salesmanship, accounting. And they are envious. If they knew foreigners were buying into their companies, they would be very angry. Russia is more dangerous than Peru when I started investing there." But since the danger is heavily reflected in stock prices, the risk/reward ratio is probably right.

Talking about maximum pessimism, the U.S. dollar has few friends these days. "Yes, that's a good one," Templeton replied, "I would think we are close to a bottom of the dollar. There have been many, many years of bad news about the dollar, to the point where it has been pushed far, far too low against other currencies in terms of purchasing power parity. It is very low in terms of what it will buy, as anyone who travels to Japan or Europe will agree. I think the American dollar, and the Canadian and Australian dollars are among the most temporarily depressed exchange rates in the world. The long-term outlook for all

three nations is quite good, certainly better than average."

Back to Japan: The Nikkei index peaked at 38,916 on Dec. 29, 1989 and is below 20,000, a 50% drop. Would Templeton consider Japanese stocks at these levels?

"No," he replies without hesitation. "No, I surely would not. The Japanese market's price/earnings ratio is 90 and the yield is 0.7%, and you've got to pay in cheap dollars. You can't get someone with my frame of thought to say you're finding any bargains in Japan."

"I agree Japan's business recession is beginning to end. So let's take an optimistic view: Earnings over the next

A nondenominational missionary

"A PERSON is more likely to be successful managing money if he uses spiritual principles," says Sir John Templeton, "and the more you practice spirituality, the more you learn." For Templeton, the spiritual and the temporal aren't things you put in separate boxes. For 30 years now he has led the directors of the Templeton Growth Fund in praying that they will make intelligent investment decisions.

Is this not blasphemous, to ask for God's help in making money? As Templeton sees it, prayer carries its own benefits. He says it helps open his mind and enables him to think more clearly about a company, a market, a philanthropic gift or any other endeavor. "I think all careers are more successful and satisfying if you use spiritual principles. I can't think of a single exception."

Although he was baptized as a Presbyterian, Templeton does not favor any single religion in his giving. He sees benefit in them all. But it nags at him that, despite mankind's enormous advances over the millennia, there has been no corresponding progress in understanding the human spirit. For the latter we still seek so-

lace and comprehension in writings and philosophies enunciated centuries ago by people whose knowledge of the physical world was hopelessly primitive by our standards. This century has produced dozens of great scientists. But how long since the world has produced a great prophet?

Thus the spiritual life of the neurophysiologist who explores the human brain or the astrophysicist who uses the Hubble telescope to probe the structure of the cosmos is no more advanced than that of Galileans or Buddhists of 2,000 years ago.

Templeton: "Religion is rapidly losing influence because progress in other areas is racing ahead."

All this leaves Templeton skeptical about organized religion. "No religion ever set its heart on progress," he says.

"Their interests are in looking backwards, to what the founders believed." His astute management increased the endowment of the Princeton Theological Seminary from \$3 million to more than 100 times that much, but he notes with some disdain that Princeton Theological is spending tens of millions of dollars to publish a definitive translation of the Dead Sea Scrolls. "A

good example," he says, "of looking backwards."

Of the twoscore spiritual projects he manages, Templeton says: "Our first priority is to promote the idea that progress in spiritual matters is possible, is desirable and will be done."

You can think of Templeton as a modern missionary—but to the whole world and not dedicated to any single creed. As a boy in rural Winchester, Tenn., Templeton thrilled to stories of Christian missionaries and determined to become one. But during college (Yale '34) and as a Rhodes scholar at Oxford, Templeton met real-life missionaries, and came to understand he wasn't one of them. "I realized they had more talent as missionaries than I did," he recalls, and adds: "But I also realized that I was more talented with money than they were. So I decided to devote myself to helping the missionaries financially."

Templeton has contributed heavily—over \$10 million in the last year alone—to religious causes, broadly defined. In 1982 he endowed the Templeton Prize for Progress in Religion, to encourage research and practice in religion the way Alfred Nobel's prizes reward advances in the physical sciences. The

Templeton Prize for Progress in Religion was worth £650,000 last year, when it was won by American Michael Novak, who holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute and is a former FORBES columnist.

Templeton projects include awarding prizes to teenagers who write essays on spiritual experiences that help them live their lives, and distributing his inspiring book, *Discovering the Laws of Life* (\$21.95 hardcover). He has funded a database of natural scientists who are also interested in spiritual matters. (For a list of programs and publications write: The John Templeton Foundation, 3 Radnor Corporate Center, 100 Matsonford Road, Radnor, Pa. 19087.)

"Think of all the wonderful things we have received from progress in physics and chemistry," says Sir John. Thinking of the horrible things that have taken place in our superadvanced 20th century—WWI, the horrors perpetrated by Hitler and Stalin, Cambodia and now Yugoslavia—he adds wistfully: "Why not think we would benefit even more if we had similar rates of progress in spiritual research?" —L.M.

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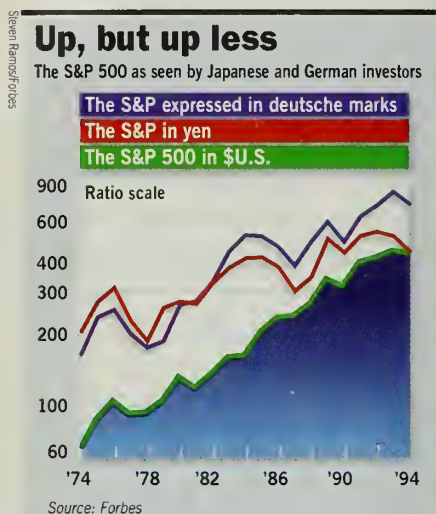
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three years double. But even so, Japanese stocks are selling at 45 times those earnings. Therefore, when you ask me if Japanese stocks will get back to their highs of the last day of 1989, I think they may not for a long, long time."

That relentless logic again: Just because a market is way down doesn't mean it is cheap. It must have the potential for a big upside move as well.

One thing Templeton says investors can count on is that inflation will not always stay under 3%. Democracy is vanquishing totalitarianism around the world. Good. But there's a flip side: In democracies, the majority rules, and majorities prefer a modest dose of inflation to high taxes to pay for the benefits they want their governments to shower forth upon them.



In dollar terms, U.S. stocks have nearly trebled since 1984. But expressed in rising marks and yen, U.S. stocks have advanced only moderately. Buying time for foreigners?

"In my opinion, inflation in the next 40 years will be no less than it was in America in the last 40 years, and probably more," says Templeton. "That means your cost of living in 2035 will be at least six times what it is today."

Given his outlook for inflation, Templeton thinks intelligently chosen common stocks will continue to be the best hedge against inflation—"not necessarily year by year but long term," he says.

What about bonds? Not for investment. With 5% average inflation and high taxes, long bonds, even at 8%, will produce a negative yield. Bonds are no longer for widows and orphans. They're for speculators. Templeton says he might speculate in 30-year Treasuries in the next few months, now that their yields are back to 8%. Here's why: "I love 8% cash yields, and I sense we might be getting close to the end of the interest rate cycle."

"But," he adds decisively about the long bonds: "I wouldn't keep them [the bonds] for long; I'd buy to trade."

Having beaten not just the market, but the markets, for so long, what advice does Templeton offer? He agrees with us that most investors are better buyers than sellers: They sell either too soon or too late.

"I spent many years on that problem myself," he replied. "Several years ago I came up with what I believe is the right answer to when to sell. The solution is never to ask when to sell a stock. Instead, you should sell a stock

only when you have found a new stock that is a 50% better bargain than the one that you hold." That's a constant theme with Templeton. You might call it comparison shopping. It's as much a search for relative bargains as it is a search for absolute bargains. Compare, compare, compare.

Before parting we asked Templeton the inevitable question: What's ahead for the U.S. stock market? "Throughout this century," he replied, "the average stock market cycle has lasted six years: four years of rising prices, followed by two years of falling prices, and the bull market that started in 1990 is already four years old."

Aha! we pounced. So he thinks 1995 will be a bad year? Not so fast. "I'd say about half the people I talk to think a bear market is just ahead, and that's a good thing, because bear markets usually start when nobody expects them." Also favorable to U.S. stocks are what he sees as the improving prospects for the greenback. Foreign money, he feels, may give U.S. stocks another boost (see chart, p. 68). John Templeton is certain of this: Over the next 40 years, as over the past 40, common stocks will continue to be an investor's best friend. The reason is material progress, about which he is profoundly optimistic.

"It used to take 1,000 years for the standard of living to double," says Sir John, "but in my lifetime the standard of living has increased by four times, and the best is yet to come. My prediction is that in the next 40 years it will increase by another four times. Just look at China: They've increased their standard of living two times in the last nine years and two times in the eight years before that. Their leaders say it will increase another two times during the next nine years, and based on my last trip there four months ago I believe them"—an eightfold increase in a quarter-century.

"Progress is going to speed up, not slow down," Templeton adds, "so in the long run people who invest in common stocks of well-managed companies will be better off than people who put their money in other forms of investment."

But don't rush out and mortgage the homestead. Prices will continue to fluctuate as optimism and pessimism alternate with the headlines and with people's moods. Rising markets will continue to be interrupted by falling markets. "I think that because of the extra competition [from the growing number of international investors], share prices probably won't get as far out of line in relation to their values as they once did," says Templeton. "Bear markets might not get as bad as in the past. But there's an offsetting factor, namely, the speed of communications. People can now act more like a herd because they're more in touch with each other. The herd instinct is increasing. I think you saw that last year in China, where the speculators were all in instant touch with each other, and the market went down 70% in seven months. Yet the growth outlook in China is marvelous and will, I think, continue to be."

The moral is: Never, ever, buy stocks with borrowed money or with money that you may need tomorrow. Templeton says he has never even had a home mortgage: "I want to be able to hold on to the stocks I buy—forever if necessary."

You probably thought that modern management theory was original stuff. Actually, most of its tenets were advocated three-quarters of a century ago by a brilliant woman and then largely ignored.

The mother of them all

By Dana Wechsler Linden

"YOU MAY SAY I reinvented her," Peter Drucker says. "Only I didn't know that she existed."

Thus does the finest of today's management theorists pay homage to a woman whose ideas predated many of his own and almost uncannily prefigure them. As early as the 1920s, Mary Parker Follett advocated flatter organizations; extolled the benefits of teams and participative management; said leadership comes from ability, not from position in a hierarchy; and proposed a new kind of cooperative conflict resolution to replace the confrontational labor-management relations that existed then and to a considerable degree still exist today.

Mary Parker Follett was much sought after as a lecturer on business management in the 1920s and 1930s but was largely forgotten after her death in 1933. She gets restored credit with the publication this month of *Mary Parker Follett—Prophet of Management: A celebration of writings from the 1920s* (Harvard Business School Press, \$29.95). So impressed was he with the manuscript that Drucker was delighted to write an introduction.

Listen to Follett: "Authority should go with knowledge and experience, that is where obedience is due, no matter whether it is up the line or down," she wrote in 1933. Dress that up with a buzzword or two, and you've got Jack Welch and other modern managers on empowerment.

Whence came this woman whose vision was so remarkably ahead of her time? Born in 1868 in Quincy, Mass., outside Boston, Follett was the daughter of a skilled tradesman and the granddaughter of a successful local merchant.

Follett graduated from Thayer

businessmen such as Henry Dennison. It was the Shaws who provided Follett with a small stipend enabling her to pursue her intellectual interests. She was exposed to the business world while sitting on committees that set minimum wages for women and children.

At the time the prevailing management theorist was Frederick W. Taylor, whose time-and-motion studies were very much in vogue. That era's fondness for command-style, hierarchical organizations was inspired by the U.S. military which, in turn, was modeled on the Prussian army's vaunted efficiency.

While Taylor never stooped to ask the workers he studied how they felt their jobs might be done better, Follett advocated tapping their firsthand experience. She warned that in most hierarchical bureaucracies, one loses "what we might learn from the man actually on the job." And that they "ignore one of the fundamental facts of human nature, namely, the wish to govern one's own life."

Follett advocated "cross-functioning," in which "a horizontal rather than a vertical authority" would foster a freer exchange of knowledge within organizations. In plain language this meant that different departments within a company should work together on projects—shades of today's high-performance teams.

Leaders were still necessary, she believed, but not as dictators. "The



Prescient theorist Mary Parker Follett
Jack Welch without buzzwords.

Academy and from Radcliffe College. While in college, Follett taught political science at a nearby secondary school, whose headmistress became her companion for the next 30 years. The two women became part of a circle of high-minded Bostonians that included Brahmin families like the Cabots and the Shaws and successful

leader makes the team," she wrote, by providing a vision and helping focus all the resources in filling that vision. Sound familiar? It's the guts of almost all modern management theory, but in that patriarchal age it sounded almost utopian, too redolent of what today we would call touchy-feely. It no longer sounds that way.

"Power is not a preexisting thing which can be handed out to someone," she said—sounding strikingly like today's bestselling ideas on leadership. Knowledge and experience, not titles and seniority, should decide who will lead at any particular moment.

Much of Follett's work anticipated the current field of conflict resolution. Where interests seem to conflict, as over wages, Follett's way was to get both sides to treat the conflict as a problem to be solved jointly rather than as a battle of wills and strength. This encourages each side to see the other's problem.

"Power is not a preexisting thing which can be handed out to someone."

Why was Follett so long ignored? Drucker suggests that the intellectual climate in the 1930s and 1940s was inhospitable to her ideas. And thinking about management had not yet evolved beyond a "toolbox" approach, that is, learning techniques for accounting, finance, sales and manufacturing.

This was undoubtedly true: Ideas get accepted only when conditions are ripe for them. But some would suggest that being a woman also handicapped Follett. Harvard Business School professor Rosabeth Moss Kanter points out in her preface to the new book that in Follett's writings, all leaders are male and women surface only as "shop girls."

Regardless of why she was so long ignored, it is obvious that Follett will be ignored no longer. "People often puzzle about who is the father of management," says London School of Economics Chairman Sir Peter Parker. "I don't know who the father was, but I have no doubt about who was the mother." ■

The 15% penalty tax on "excessive" retirement savings can be pretty nasty. There are right ways and wrong ways to cope with it.

Are you saving too much?

By Carolyn T. Geer



IF YOU ARE THRIFTY and accumulate a lot of money in your 401(k) plan or IRA, you could get hit with a penalty tax when you take the money out. This punishment was devised by Congress in the 1986 tax act. Minimizing that tax has turned into a big headache for prosperous retirees.

Don't be complacent that you won't be subjected to this punishment. In round numbers, anyone with \$1 million or more in retirement savings should be on guard. Yet there are

measures you can take to avert the pain.

The penalty is 15% of the amount by which your combined retirement payouts—from pensions, profit-sharing plans, IRAs and Keoghs—in any year exceed a certain threshold. The threshold, \$150,000 for 1994, was supposed to get a cost-of-living boost for 1995. Tucked into the recent trade liberalization law, however, is a provision that undermines the inflation adjustment by rounding it down to the nearest \$5,000, with the result that

there probably won't be any increase in the threshold until 1996 or later.*

The 15% pension penalty comes on top of the ordinary income tax owed on these payouts. The double whammy puts the most affluent retired taxpayers in a 56% federal tax bracket.

The first rule is: Avoid the surtax if you can. The second rule: Don't overdo Rule 1. "Many people have made costly, irrational decisions trying to beat it," says Bruce Temkin, a retirement planning expert at Louis Kravitz & Associates in Encino, Calif.

Assuming you don't need the pension distributions to live on, can you avoid the penalty tax by merely limiting your withdrawals to \$150,000 a year? Maybe, maybe not. Once you reach age 70½, you are compelled to start cashing in your IRAs and 401(k)s, at a pace determined in large part by your life expectancy. If the minimum you are compelled to withdraw (plus your fixed pension) is more than \$150,000 a year, then the government has you over a barrel. You can't avoid the 15% penalty.

This penalty tax chases you to the grave. IRA and other tax-deferred assets left to heirs get hit with the 15% tax to the extent they exceed certain limits (see chart).

The obvious way to minimize your exposure to the 15% penalty is to get some of that money out of the IRA or 401(k) early. Start withdrawals of up to \$150,000 a year well before you reach 70½. You can also take advantage of a one-time exemption from the penalty tax that is available for lump-sum distributions from 401(k)s, corporate profit sharing and retirement plans and Keoghs. (The lump-sum allowance is not, alas, available on IRAs.) The lump-sum exemption is five times the usual annual exemption.

The problem is this. Either of these schemes for shrinking the retirement pot comes at a cost: You accelerate your regular tax bill on whatever you take out. You also lose the benefit of letting these assets compound tax-deferred. Sometimes the damage done

Your estate owes the 15% penalty tax if you die with too much in your retirement plans. The exempt amount is a somewhat arbitrary function of your age and a market-based interest rate.

outweighs the penalty tax.

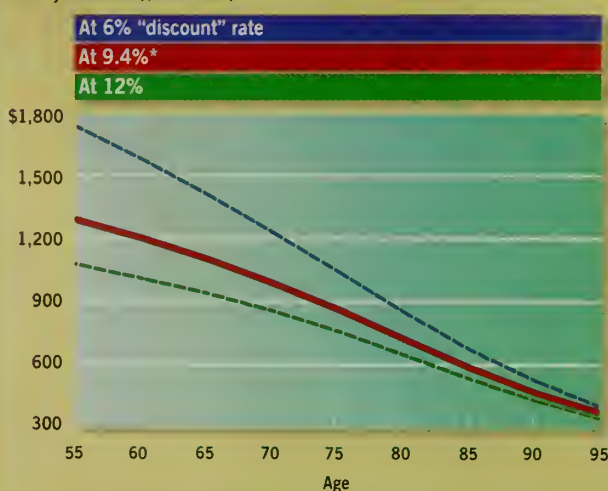
Michael Davis, a financial planner in Orlando, had a client who got bad advice. The client was told by an insurance salesman to withdraw \$100,000 a year from his \$1 million plan to save excise taxes on future distributions. Wrong! Inside the plan, \$100,000 would grow at 8% to \$317,000 in 15 years. Even assuming this \$317,000 is all subject to 40% income tax and 15% excise tax, the client would be left with \$143,000. Outside the plan, that same \$100,000 would take a \$40,000 income tax hit immediately, and the rest would grow to only \$121,000 after income taxes. The cure was worse than the disease.

"The more you earn on your investments, and the more years of deferral you have left, the more sense it makes to leave the money in the qualified plan or IRA," says Davis. Had the Orlando client been an older person, the withdrawal might have made sense.

Nashville attorney Michel Kaplan had a client, a doctor, with a \$750,000 IRA, who was diagnosed with terminal cancer at age 64. When Kaplan met with the widow, he discovered the doctor had withdrawn \$150,000 from his IRA. A stockbroker had convinced him that his estate was going to be subject to the penalty tax and that he should start taking distributions right away. In fact, the doctor could have died with as much as \$1.3 million in his IRA and not owed a penny of surtax.

Postmortem punishment

Penalty-free limit (\$thousands)



*December 1994 rate.

Source: Louis Kravitz & Associates.

Compounding the error, the stockbroker advised the widow to roll the doctor's IRA into hers. This would have boosted her balance from \$750,000 to \$1.35 million, potentially pushing her into surtax territory.

Kaplan fixed the second problem by advising the widow to keep the doctor's IRA separate from hers. Thus she is unlikely ever to be required to draw so much from her IRA that she gets hit by the surtax. The money in her deceased husband's IRA, having once been exposed to the surtax, is forever exempt from it.

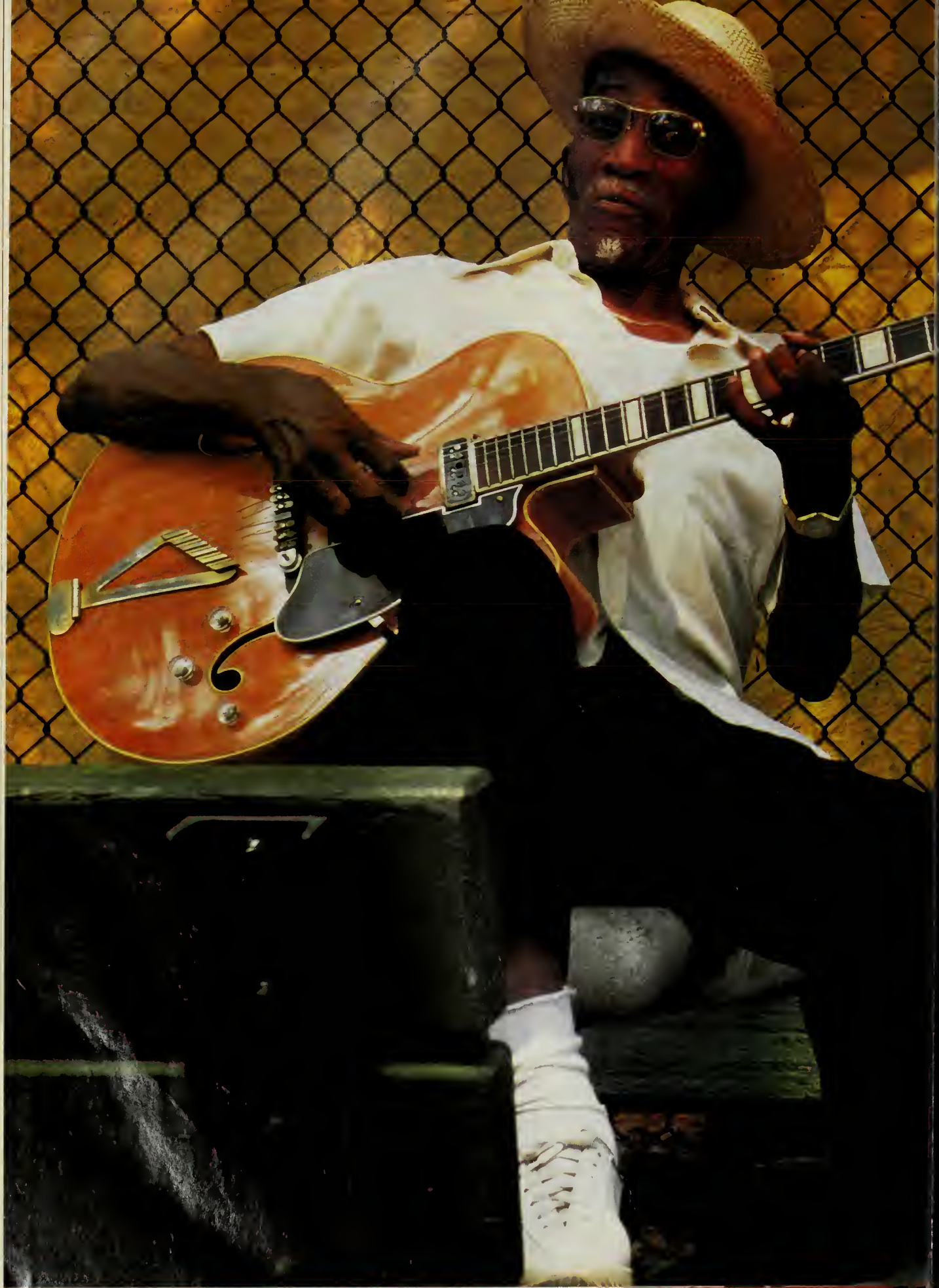
Moral: If you are successful enough to confront the 15% penalty, get good advice. In particular, consider stretch-

People are making costly, irrational decisions trying to beat the surtax.

ing out IRAs for decades by naming kids and grandkids as beneficiaries (FORBES, June 21, 1993). This won't stop you from making whatever withdrawals you need to live on.

For most successful people, the best hope is that Congress will repeal this grotesque punishment, which brings in little money to the Treasury. Until it does, you have this consolation: Years of tax-deferred compounding inside the plan will go a long way toward relieving the pain.

*This insidious trend began when the 1993 tax act decreed that cost-of-living increases in the \$150,000 amount used to figure 401(k) plan contributions must be rounded down in \$10,000 increments (FORBES, Mar. 14, 1994).



*"After a while, nothing helped my knees.
I had to have something done."*

WALTER J. PERRY
NEW YORK, NEW YORK

Walter "The Buzzard" Perry says he was born to be a songwriter. In fact, he carried his guitar with him on the Italian front during World War II and serenaded his platoon. But 15 years ago, he started singing a different kind of blues.

It all began with an aching and swelling in his knees. Some days he couldn't stay at work, the pain was so bad. He even fell in the street and couldn't get up on his own. "I just stayed at home—shut in," he remembers. "It was awful."

Thanks to medical technology developed by the research we do, Walter has two new artificial knees, and he's mobile again.

Our health care system should ensure that this research continues, so companies like Pfizer can develop new medical devices. And help more people like Walter.

"Now I can go anywhere I want to," he said.

"I feel good."



We're part of the cure.

Gooseberry Patch's owners no longer run their business from a kitchen table, but the customers still think of them as a couple of folksy little ladies.

Selling smells

By Marla Matzer

A SMELL of cinnamon and gingerbread hits you when you open a box from the Gooseberry Patch mail-order catalog. "We don't add scent—it just smells that way from the warehouse," says Jo Ann Martin, co-founder and co-owner of Delaware, Ohio-based Gooseberry Patch. "Cinnamon is our top-selling home fragrance. Gingerbread is number two."

Martin, 38, and partner Vickie Hutchins, 43, are, in their own words, peddling "the emotion of warmth and family." A folksy newsletter goes to customers with recipes and photos of employees. Clients write back with recipes and photos of their kids.

What tangible form does all this cuteness take? Fragranced oils, cookie cutters and scented nonedible cookie mixes for decorations. The alltime bestseller is a \$13 "heart in hand" cookie cutter, which creates a hand-shaped cookie with a heart-shaped hole in the middle. Says Martin: "It symbolizes an old Shaker saying: 'Hands to work, hearts to God.'"

In 1994 folks bought \$4 million worth. This year the partners are aiming for sales of \$5 million.

Martin and Hutchins met by chance in the spring of 1984. Martin, a first-grade teacher, and her husband, Jay, the soccer coach at Ohio Wesleyan University, moved in next door to Hutchins, a housewife, and her husband, Shelby, an attorney. Quickly discover-

ing a shared love of decorating and antiques, the women would prowls shops and flea markets on the weekends and go to auctions.

The craft catalog was Hutchins' husband's idea. Putting up \$5,000 apiece, the two women lined up suppliers for items they would have liked in their own homes: a \$195 Redware punch bowl set, a \$75 handmade mohair teddy bear, a \$400 hand-

crafted chair. They spent most of their capital on a slick full-color catalog mailed out to 5,000 names culled from a rented mailing list and 300 more from a local shop owner.

The catalog went out in August of 1985. Early returns weren't heartening. With \$27,000 worth of orders trickling in, the partners lost about \$20,000 on that first mailing.

Analyzing their returns, they realized that what sold most profitably for them were the cheaper nostalgia items. Aha! They had uncovered a market segment. Out went the expensive crafts. In their place came \$16 wooden wall hangings, \$36 recipe boxes and \$8 rubber stamps. Out, too, went the glossy catalog. In came a smaller one on heavier brown stock, with illustrations of the merchandise by a local artist instead of photos.

That was better. The new catalog, sent out in early 1986, produced



Gooseberry Patch founders Jo Ann Martin and Vickie Hutchins
Peddling "the emotion of warmth and family."

\$85,000 in orders, which Hutchins processed in her home. Her parents, then in their 70s, worked as packagers. Jay Martin recruited his soccer team to unload trucks. But the little firm remained in the red for the year.

Still, the partners persisted. They were having fun, traveling about looking for merchandise and plotting marketing gimmicks. By 1989 sales reached \$500,000, and the little business was finally turning a small profit. Martin had quit her teaching job by then, so they moved the business into an office and a rented warehouse. With cash flow and small bank loans, they hired a consultant to help them buy computer equipment and a program that tracks sales of each item against the lists they mail to. For \$100, another consultant critiqued their catalog. He told them to write a welcoming note in the front, put impulse items like \$8 rubber stamps of

baby animals around the order form, and place their bestselling items on page 3.

Martin and Hutchins run a tight ship, though they now mail 3 million catalogs a year. Old, shredded catalogs are used to pad shipments. They have thrown together art, baking tips and decorating ideas from past catalogs combined with ideas from customers and friends into a 200-page, spiral-bound book called *Old-Fashioned Country Christmas*. It has sold 120,000 copies at \$14.95 apiece; two other books have followed. Martin and Hutchins have even begun wholesaling the books, along with Gooseberry Patch items like home fragrances and cards, to independent gift shops. Last year such sales accounted for 25% of revenues.

"A lot of our customers think we're still sitting at our kitchen table, making everything ourselves," says Hutchins, who more than doubled her firm's staff, to 75, to handle the Christmas rush. "And that's okay with us."

Jim Slattery has played host to such high-profile guests as Leona Helmsley and Ivan Boesky, but, no, he's not a hotel man.

A surefire growth business

By Michael Schuman

Hotelier turned private jailer
Jim Slattery
With occupancy rates of 98%, he doesn't miss the hotel business.



DRESSED in bright orange jumpsuits, 25 women lounge and chat on cots in a spotless, tightly locked dormitory while an unarmed security guard eyes them suspiciously. They are illegal aliens nabbed at New York's JFK International and New Jersey's Newark International airports by the Immigration & Naturalization Service.

But this is no federal prison. Awaiting hearings, these illegals—from the Caribbean, South Asia and the Middle East—are housed in Elizabeth, N.J. at a private lockup. As governments everywhere struggle to roll back bureaucracy, even such traditional government functions as running jails are being privatized. This one is operated by \$23 million (expected 1994 revenues) Esmor Correctional Services Inc., a Nasdaq-list-

ed public company.

Melville, N.Y.-based Esmor runs eight detention facilities, including halfway houses in New York City and Fort Worth. It also operates a facility for parole violators in Houston and a military-style "boot camp" in Tarrant County, Tex. It sometimes gets celebrity guests. Involuntary customers of Esmor's halfway houses in Brooklyn and Manhattan have included Ivan Boesky and Leona Helmsley.

Esmor is run by James Slattery, 45, a former hotelier. Running a jail and running a hotel have some things in common. In both businesses you want to keep the clients reasonably happy—in a hotel because you want them to come back, in a prison because you want to keep them quiet. Slattery believes that the key to run-

Esmor's "boot camp" in Tarrant County, Tex.

Shock treatment for teen offenders.



Doug Miner

ning a peaceful prison is to make sure the food is reasonably good. Thus Slattery serves chili con carne and bean burritos in Seattle, where detainees tend to be mostly Latin American, and rice with chicken or vegetables in New Jersey, where there are lots of South Asians.

How do you get into a business like this? Slattery more or less fell into it. He worked at booking hotel reservations for an agency at Kennedy Airport while attending nearby St. John's University. He worked his way up to the managership of the 200-room former Riviera Hotel near JFK. By the mid-1980s the Riviera was doing a steady trade housing foreigners who arrived in New York without visas.

When he learned that the immigration service planned to build a 100-bed detention center in Queens in 1987, Slattery and Riviera owner Morris Horn teamed with several others to bid on the project. "We were already in that business," Slattery says. "It didn't seem that different than running the hotel."

Slattery lost the bid to \$100 million (estimated 1994 sales) Wackenhut Corrections Corp., a big private jailer. But having steeped himself in the economics of running a low-security jail, he decided there was more money

in that unglamorous business than in running a hotel with finicky guests. "We saw a significant demand," Slattery says dryly, "and limited supply."

Next bid, the Slattery/Horn team landed a deal in 1989 for an INS facility in Seattle. There followed a Federal Bureau of Prisons contract for a halfway house in Brooklyn.

Slattery, who had earlier brought in a high-level staffer experienced with

On running a jail: "It didn't seem that different than running the hotel."

juvenile offenders, went after and won the contract for the Texas boot camp in 1991. These military-style facilities are a promising way of handling and possibly reforming young offenders. Esmor recently won a bid on a second Texas boot camp, which will be built early this year. It is bidding on three medium-security facilities for youthful offenders in Florida.

Next: hard-core prisons. With the U.S. federal and state prison population—now just over 1 million adults—growing at 7% a year, and with private prisons representing

about 3% of prison beds, Slattery thinks he's onto a growth opportunity. Running facilities for more hardened criminals is somewhat of a leap for Esmor, but Slattery figures that with good food and efficient operations he can do better than a bureaucracy can at this thankless task.

Does Slattery miss the regular hotel business? Not so you would notice. Occupancy at Esmor's facilities averages 98%, as opposed to 65% for the U.S. hotel industry. The bills are always paid and pretax margins run over 10%, nearly three times more profitable than the hotel business as a whole. On 1994 revenues of \$23 million, the company earned about \$1.5 million.

Raymond Reed, an analyst at Janney Montgomery Scott, expects Esmor's revenues to jump 36% this year, to over \$30 million, with earnings rising 66%, to \$2.5 million, or 67 cents a share. Since Janney Montgomery took the company public last February, its shares are up 52%, to a recent 9½.

Slattery's 18% stake is worth nearly \$6 million, but taxpayers have no reason to complain: It costs 15% less on average to keep a prisoner in an Esmor jail than to keep him in a new government facility.



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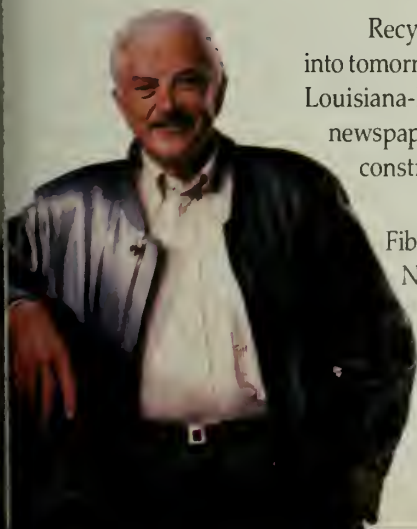
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Don't let the beach bum image fool you. Jimmy Buffett is one of the smartest men in the music business.

Margarita marketing

By Robert La Franco

BUSINESS SAVVY sure runs in this family. Warren Buffett's distant relative (FORBES, July 18, 1994), writer and singer of Caribbean rock songs Jimmy Buffett, has found almost as many ways to capitalize on his particular talent as "Uncle" Warren has on his.

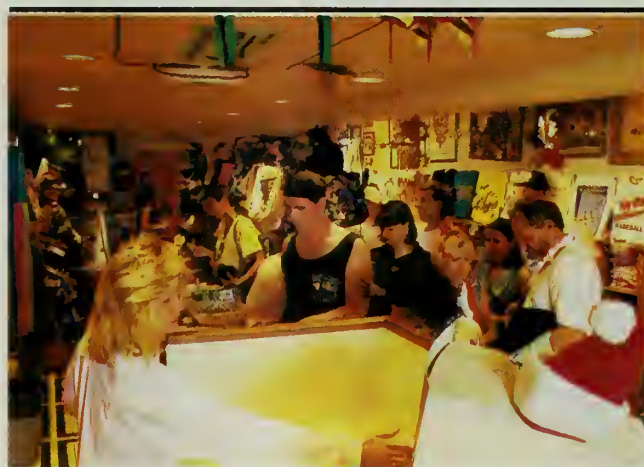
Jimmy Buffett's career was going nowhere in 1984, when he convinced Corona Beer to sponsor his concerts. Corona hired him to flog its Mexican brew to young, cash-fat consumers. Until then he had pretty much decided, in his words: "The day of the singer/songwriter is over." By 1987 Buffett was on the radio pitching beer with the best beach bum cachet in music. Corona spent more than \$2 million on the campaign over the next two years. From 1984 to 1988 Buffett helped propel the brand from some 2% to 17% share of the imported beer market.

Showing he was made of the same stuff as his "uncle," Jimmy Buffett lost no time expanding his new franchise. With his longtime friend Sunshine Smith, Buffett opened a 400-square-foot shop in Key West called Margaritaville Store that sold T shirts and beach trinkets, later adding a mail-order catalog, newsletter, nightclub and cafe. Buffett expanded to New Orleans three years ago, with a much bigger cafe and retail operation.

Meanwhile, back in his core business, his latest album, *Fruitcakes*, marketed through his own Margarita-

ville Records label, has sold 1.4 million copies, outpacing every other Buffett record sold to date.

All of which is a textbook lesson in how to cross-market music, restaurants and retailing. Last year Buffett sold more than \$50 million worth of



Mark M. Lawrence



Wyatt Counts/Outline

Margaritaville Store; Jimmy Buffett
"Why don't we cross-market?"

CDS, tapes, concert tickets, books, T shirts, trinkets and food, helping to make him one of the highest-earning entertainers in the world (FORBES, Sept. 26, 1994).

High-brow stuff this is not. Buffett's T shirts depict themes from his songs and Margaritaville logos and sell for \$15, sweatshirts for \$40. Hawaiian shirts fetch \$50, pillows that look like cheeseburgers, \$20. The "lost shaker of salt" goes for \$5.

"When we first started doing it, I thought, 'Man, that's gaudy stuff, I wouldn't wear it,' but there's a lot of people that do," Buffett says. "Maybe there's a certain amount of cheesiness to the whole thing, but it's Economics 101—like it or not, these things sell."

By his own admission, Buffett is not a great musician, but he's an icon, and that's what counts. His annual summer concert tour is one of the top draws of the summer season. His hard-core fans, known as Parrot Heads, may show up wearing green and yellow feathers and boxer shorts. They have been known to truck sand and beach chairs to the shows for tailgate parties.

Buffett has also diversified to other media. He has done two novels, *Tales from Margaritaville* and *Where is Joe Merchant?*, two children's books, and just got close to a \$3 million advance from Random House

for his next book, a collection of tropical short stories. He is working on a musical score for a play destined for Broadway and has plans to put out a movie based on his *Where is Joe Merchant?* book.

Buffett says he has spurned offers from Walt Disney, MCA and others to open Margaritavilles in theme parks and other locations. Instead, he will continue to go his own way, possibly expanding to Miami, Jamaica and the Bahamas. "All I have is my good name, and I knew people were going to exploit it and do a bad job of it," Buffett says. "I just decided I would do it and do a good job."

"He calls me from time to time for advice, but I should be calling him," says "Uncle" Warren.

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Tambrands invented tampons and then coasted.
Can Ed Fogarty get this profitable but stalled company moving again?

Will the Chinese use tampons?

By Dyan Machan

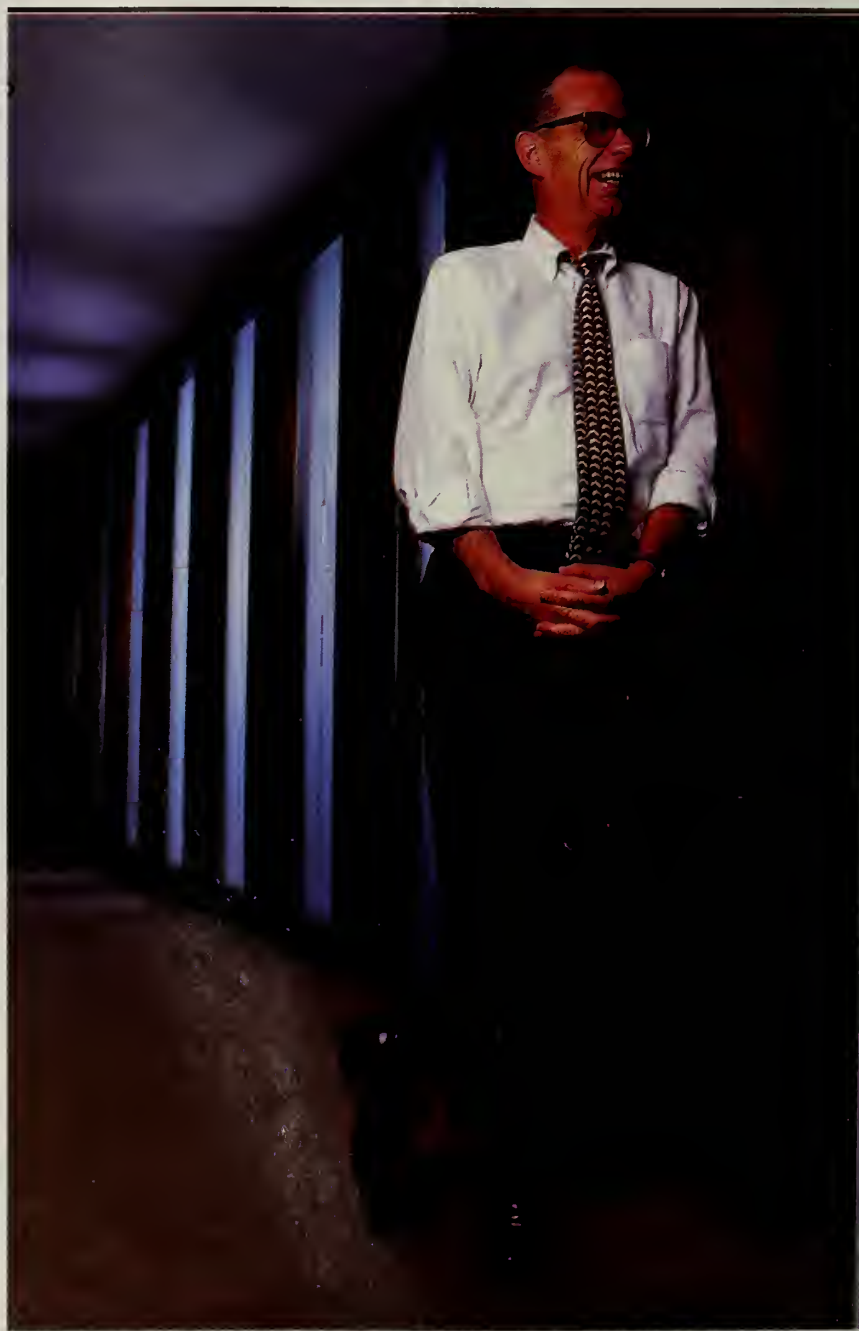
"I SELL TAMPONS!" Edward Fogarty responds when people ask the obligatory question about what he does. "It still delivers a shock," Tambrands' 58-year-old president and chief executive says gleefully.

Right now, Fogarty is trying to shock the company that makes tampons. Tambrands, long known as Tampax Inc., invented the product in 1936 as a substitute for the pads women use when menstruating. The first internally worn menstrual product, it was a huge step forward in comfort and convenience over the frequently uncomfortable pads that women used until then. But competitors like Playtex, Kimberly-Clark and Procter & Gamble entered the field, and Tambrands' U.S. market share eroded from 100% to 42% in 1980. Tambrands got a bit of a reprieve from competition in 1980, when P&G's Rely had to be withdrawn from the market in the toxic shock syndrome scare. Tambrands was able to regain market share to near 60% after P&G withdrew Rely but failed to hold the gains. It also flopped with a sanitary pad that was all but obliterated, mainly by P&G's product. Several stabs at diversification were halfhearted and had to be dumped.

Today Tambrands still has over half the tampon market in the U.S., with sales around \$640 million, but its earnings per share last year were only marginally higher than those in 1990.

Tambrands President Edward Fogarty

Would that Tampax tampons were as valued in the U.S. as they are in parts of Russia. In Arkhangelsk, lumberjacks were paid in tampons instead of cash.





Tampon aisle in a U.S. supermarket
A bewildering choice in a barely growing market. Try raising prices with that much competition.

The stock, which traded well up in the 60s in 1993, now drags along at 39.

The company is still highly profitable, with net profit margins running around 15% of sales, but the growth seems to have gone out of it. Fogarty was brought in late last May after running the USA/Canada/Puerto Rico region for Colgate-Palmolive Co. Fogarty is a marketing man to his fingertips. At Colgate he took a stagnant product, toothbrushes, introduced different shapes and colors, and juiced up sales an average 13% five years in a row. Tampons are not new to him; he peddled them during the 1970s and 1980s at Playtex.

What are his plans at Tambrands? In answer, Fogarty strides out of the room and returns with an armload of Tampax products. "There's no secret," says Fogarty spreading them on a table. "The most successful companies are the ones bringing innovations fastest to the market."

He points to three recent product launches, the Tampax Satin Touch, which has a glossy paper cylinder and rounded tip designed to compete with Playtex's plastic applicator, but with the added feature that it is biodegradable; Tampax Lites, which has the lowest absorbency of any tampon on the market, to be more comfortable on light-flow days; and its nonapplicator or digital tampon, Tampets, which just started selling in the U.K.

All three new products were in the pipeline before Fogarty took over, and Fogarty intends to keep that pipeline filled with additional new products. A major target: the 58% of U.S. women who use both tampons and sanitary pads. The new products in development are intended to get

them to switch entirely to tampons.

Fogarty isn't the only one with that idea. "Everywhere you turn, someone's coming up with a new product," says Joel Smilow, chief executive of Playtex. In 1994 Playtex launched Multi-pack, a package that contains tampons with different absorbencies for different times of the menstrual cycle, as well as Ultimates, whose cardboard applicator competes with Tampax's signature cardboard tampon. Kimberly-Clark last fall launched a marketing blitz behind its new Kotex Curved tampon.

Confused? There's more. While Tambrands is selling its nonapplicator tampon, Tampets, in the U.K., Kim-

Some young Latin women fear tampon use will cause them to lose their virginity.

berly-Clark is testing its Kotex nonapplicator product in the U.S. Competition is expected to get cutthroat in Europe. Playtex has joined Johnson & Johnson to sell its tampons overseas, and Kimberly-Clark recently bought the feminine care assets of German consumer products company, VP-Schickedanz.

Try raising prices with that kind of competition. You can't, and the increasing advertising and new product costs are coming straight out of profit margins. Tambrands' selling and administrative costs, which include advertising, increased from 38% of sales in 1992 to 43% of sales in 1993. To get profits growing again, therefore,

Fogarty knows he must get a bigger share of the feminine hygiene market for tampons—both here and abroad.

So, like its competitors, Tambrands has its eye on the overseas markets, especially in countries where the standard of living, though still low, is rising rapidly. Russian newspapers this fall reported that lumberjacks in the northern region of Arkhangelsk were sometimes paid in tampons because their employer was short on cash. In Morocco, a tourist traded tampons, tea and sugar for a carpet.

In China and in some parts of Latin America, however, Tambrands and its competitors have made slow progress. In these countries, tampon use is erroneously assumed to result in the loss of virginity. Now there's a challenge for an ad agency.

Fogarty knows he must produce results fast. "In effect, we have to walk and chew gum at the same time," he says. Tambrands' board isn't known for patience. In the past five years it has given two chief executives the boot: Edwin Shutt Jr. in 1989 for his misdirected diversification and Martin Emmett in 1993 for ineffective marketing strategies.

Credit Fogarty with having a firm grip on the problem. He knows that those American women who grew up with Tampax are loyal and will buy its products, provided they are competitive. He also knows that this is a product that is bought, not sold; that is, the customers come into the store already having decided what product they want. So Fogarty is increasing advertising as well as in-store promotion. His new marketing campaign features feistier ads with women scoffing at the use of pads. "Who needs them?" they ask.

Credit him, too, for building a strong new management team. Michael Lorelli, former president of Piza Hut International, is president of North America/Latin America. Thomas Mason, former president of Dole Packaged Foods Co., runs Tambrands' international group. Like Fogarty, both are alumni of Playtex.

Results are starting to show. Tambrands' U.S. market share was up two percentage points in the third quarter of 1994, over the first two quarters, to 54%. Edward Fogarty is chewing his gum—and running hard, too.

Believe it or not, computer makers are beating their brains out trying to make their machines more friendly.

New hope for computer illiterates?

By Julie Pitta

DURING A RECENT TOUR of the product support department at Microsoft, Executive Vice President Michael Maples encountered a staffer taking a help call while lying on a couch. "I was told it was the mail merge couch," he recalls. Mail merge lets Microsoft Word, the company's popular word processor, add names and addresses "instantly" to a form letter. But there's nothing instant about mastering the feature: Walking a perplexed user through mail merge typically takes 30 minutes.

Computer pros might have laughed off such problems a few years ago, when most computers sat in offices that had in-house help. But now that the personal computer business is moving to the home market, murky, quirky software and hardware can lose a customer forever. Some marvel that consumers keep on buying, despite their disappointments.

"This is the only business in the world in which people take home a product and it fails to work one-third of the time," says Richard Thoman, general manager of IBM's personal systems division. "Can you imagine that rate of failure in the auto industry?"

To hold back the flood of discontent, Thoman says, IBM last year beefed up its support hot lines, cutting the time spent waiting for help. The company now fields 200,000 calls monthly, half again as many as a year ago.

Have computers become ever more hostile to their human masters? To be sure, faster processors, more memory and storage have allowed them to do more things: display graphics and video, play music, jump from one program to another. But all these capabil-

ities have complicated the machine, raising the chance of glitches.

Part of the problem lies in the very efforts of hardware and software producers to make their products easier to use. Modern operating systems are very clever, handling much of the housekeeping detail (like memory organization) that a decade ago the unfortunate user would have had to contend with on his own. But when something goes wrong now—a new application conflicts with a memory manager, say, or a peripheral is added—the complexity of the repair is correspondingly larger.

The other part of the problem is that the user's expectations have changed. When a subtle math error

"We found people doing budgets in the word processor because the spreadsheet was too intimidating."

was found in Intel's Pentium micro-processor, users revolted, whereas similar errors in the company's earlier chips produced no ruckus at all. The older chips were used mainly by engineers; the new ones, by consumers brought up on auto "lemon" laws and class actions.

Thoman estimates between 35% and 45% of the PCs now being sold are going into homes. The percentage could increase dramatically in coming years. Already, about 80% of IBM's help line calls come from novices.

"Usability" has become the issue du jour in the personal computer

industry. Hardware companies like Packard Bell and Taiwan's Acer have tried to leapfrog Apple's early lead in making their PCs easier to set up. Packard Bell has color-coded plugs and outlets. Acer has a step-by-step software program, supplemented with a poster.

Intel and Microsoft have led an industry consortium to develop a "plug-and-play" standard for add-on equipment, like sound boards and CD-ROM drives. The business is a long way from that lofty goal now. Try upgrading your machine with an "easy-to-install" graphics accelerator. It's a good way to kill two days of your spare time.

The IBM PC was a mother lode for entrepreneurs with creative technical ideas for improving the first limited machines. But it has also created chaos for consumers: Each piece of software, every peripheral, approached the PC a bit differently.

"Getting these things to work together is a lot like putting a Chevy engine and a Ford transmission into a Rolls Royce body," admits David Larrimore, marketing vice president for Destiny Technology Corp., manufacturer of printer controller boards. "There are so many parties involved that it will take several years to get everyone in line."

Apple Computer, which tightly controlled its operating system aimed to be plug-and-play easy from the beginning. Although it's much simpler to make changes to a Macintosh, even experienced users can run into trouble. Scott Cook, cofounder and chairman of Intuit Inc., recalling spending Christmas morning a year ago in frustration over the Macintosh



To survive, Holmes is taking a course through an extension program of the University of California at Berkeley. In a recent class, even instructor Hugo Aparicio was stymied when he tried to launch Microsoft Excel, the spreadsheet. He appealed to the computer lab director, who solved the problem by turning the machine off and on again and logging on with his own password. "I guess that's why I make the big bucks," the director joked.

It's not enough to establish standards so that different parts of a computer system can talk the same language. You have to get inside the mind of the consumer and figure out how to make that language intelligible to him, too.

To do that, industrial psychologists and programmers are peering at real consumers through one-way mirrors in "usability" labs, and even visiting them in their homes. In one outing, Microsoft's consumer product team dropped in on five families for three-hour visits during which the team reconstructed a typical day-in-the-life of that family.

The team's leader, Kelly Stapleton, estimates that the experiment cost Microsoft \$90,000 in staff time, and that it was well worth the expense. "We came up with 20 product ideas," she says. And, these Microsoft staffers have gained an intangible: understanding the frustration of the novice users. "We found surprising things, like people doing budgets in the word processor rather than a spreadsheet because the spreadsheet was too intimidating. They would calculate the stuff by hand and then type it into the computer, using the tab keys to set up columns."

The next step is to make professional programmers attend to the complaints of amateurs. "At first the developer says, 'Where did you find so many stupid PC users?'" says Microsoft's Michael Maples. "Then you show them a tape of someone struggling and something usually clicks and they realize they're not the typical computer users."

In the next phase of the digital era, the computer is supposed to merge with the television set. Let's hope for some breakthroughs from the usability labs before that happens. ■

he had given to his sister. Adding a new piece of software rendered the printer inoperable. Cook, who has been a programmer since high school, was stumped. "Finally, my wife, who's had more experience with the Macintosh, was able to make some changes in the [operating system] software to get it to work," he says.

If Scott Cook can't handle a Mac, is it any wonder that people like Irene

Holmes throw up their hands? When Holmes, a resident of San Francisco, sat down to work at her Macintosh one day, it began making funny noises, then a bomb icon appeared. "I didn't know what I was seeing on the screen," Holmes says. Several hours and \$400 later, a repairman determined that the household records had been irretrievably lost to a crashed disk drive.

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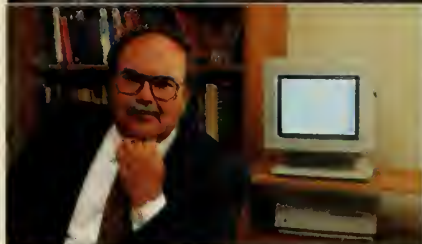
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How to repair a train wreck

COMMENTARY BY JOSEPH R. GARBER



Joseph R. Garber is a strategist with Americom Corp. in San Francisco.

IMAGINE that you have been appointed chief executive of one of the oldest companies in the software industry. You have just discovered you are going to lose \$11 million on sales of \$101 million, your selling costs for some products are higher than the revenues they bring, and an analyst is about to call your company "a train wreck." You have inherited a compensation plan that, red ink notwithstanding, requires you to pass out \$1-million-plus in bonuses.

In 1991 Paul Newton, newly appointed president of Boole & Babbage, confronted these problems and more. Three years later, for the fiscal year ended Sept. 30, 1994, he reported an \$8 million profit on sales of \$132 million. The stock has quadrupled.

Here's how Newton pulled it off.

The company was incorporated in 1967, taking its name from two Victorians whose theories laid the groundwork for computer software (Boole) and hardware (Babbage). Its first product was a mainframe performance monitor, software that tracked how many hours a day expensive computers and peripherals were up and running. The good news was that this program was the first of its kind, ultimately winding up as one of the industry's standards. The bad news was that 24 years later, mainframe monitors were still the heart of Boole & Babbage's business. And the mainframe was dying.

Enter Paul Newton. In 1991, at the age of 47, Newton was an old hand in a young industry. He had come up through the ranks at one of the software business' pioneers, University Computing Corp., later becoming chief executive of Ingres, one of the relational database pioneers. He had a pretty good idea of what had to be done.

Newton's first act was to fire 11% of the workers. His predecessors had doubled the size of the sales force, so finding layoff candidates was easy. Three years later, almost all of the 100 or so sales representatives were new faces. So, too, the top executives.

Next Newton took a look at what his salesmen were trying to sell. Over the years Boole had accumulated a hodgepodge of businesses—a time sharing company, for example—that had little to do with the corporation's real expertise. It was time to focus.

This guard dog monitors components, reports outages, prescribes remedies. Cost, \$60,000.

"We decided we were only going to sell two kinds of products to one kind of customer," says Newton. "Anything else had to be sold off or written off." What two kinds of products? Either software that provided customers with more computer uptime, or software that cut customer operating costs. And what one kind of customer? Boole & Babbage's traditional customer—large-scale computer users.

But those customers weren't buying many big IBM mainframe computers anymore. Instead, they were installing networked personal computer systems ("client-servers").

That was perfect for Boole & Babbage. Why? Client-server systems are

vastly more complex than mainframes. In the computing world, as elsewhere, as complexity increases, reliability decreases. Mainframe outages usually are measured in minutes per month; I have seen client-servers where outages are clocked in hours per week.

Newton figured such problems created a perfect opportunity for a company whose name was synonymous with computer performance monitoring. Released in 1992, Boole & Babbage's Command/Post is a hot-selling \$60,000 (and up) program that monitors the myriad components in complex client-server systems, reports outages instantly and prescribes remedies. Customers include American Airlines, Bell Atlantic, Stone Container and Metropolitan Life Insurance—precisely the kind of large customer Newton set his sights on when appointed chief executive.

With costs under control, a strategy in place and a strong new product, Newton's next act was to tell his story to the market. But how? Cash was tight and a high-priced advertising campaign out of the question.

Because Command/Post keeps an eye on all of an enterprise's computers, Newton's marketing department thought it might be cute to build an ad campaign around *Star Trek*. Paramount Pictures was willing to sell a two-year license for a pittance, \$75,000 a year. So, Boole & Babbage's sales force showed up at the next trade show wearing Star Fleet uniforms—and in the company of Jonathan Frakes, *Star Trek's* Commander Riker. Computer wonks swarmed to the company's booth.

What's next? With \$35 million cash in the bank, no debt and a market cap of \$180 million, Boole & Babbage is looking for acquisitions. Says Newton, "We'll never be Microsoft, but if we do it right we can become a major force in the corporate computing segment."

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Remember 3-D movies? The technique has been revived to make certain kinds of surgery easier and safer.

Fooling the eye

By Suzanne Oliver

IN A DARKENED screening room in Barnert Hospital in Paterson, N.J., a small audience watches as Dr. Steven Becker operates upstairs. It is an eerie scene, with the surgeon and the observers all wearing outsize 3-D glasses. It takes Becker 30 minutes to operate through a keyhole-size incision in a 42-year-old patient, removing adhesions from a hernia, then tugging the tissue back in place and closing the hole with plastic mesh.

Normally it takes this surgeon 45 minutes to do the same procedure. Becker is an endoscopic surgeon, that is, one who does his work through 1/4-to-1/2-inch-wide tubes inserted in the

body. These surgeons view their target indirectly, as video from a camera deep inside the patient, and they end up half feeling their way, half seeing, since the display can be hard to interpret. That's where those weird-looking glasses make the difference. These are electronically controlled 3-D glasses; with them the forceps, knife and tissue fairly leap from the screen.

About a dozen companies are developing competing 3-D surgery systems. Four have won approval from the Food & Drug Administration. But whereas these four use two lenses side by side to create their stereoscopic effect, Becker's system creates the

illusion of depth with a single lens.

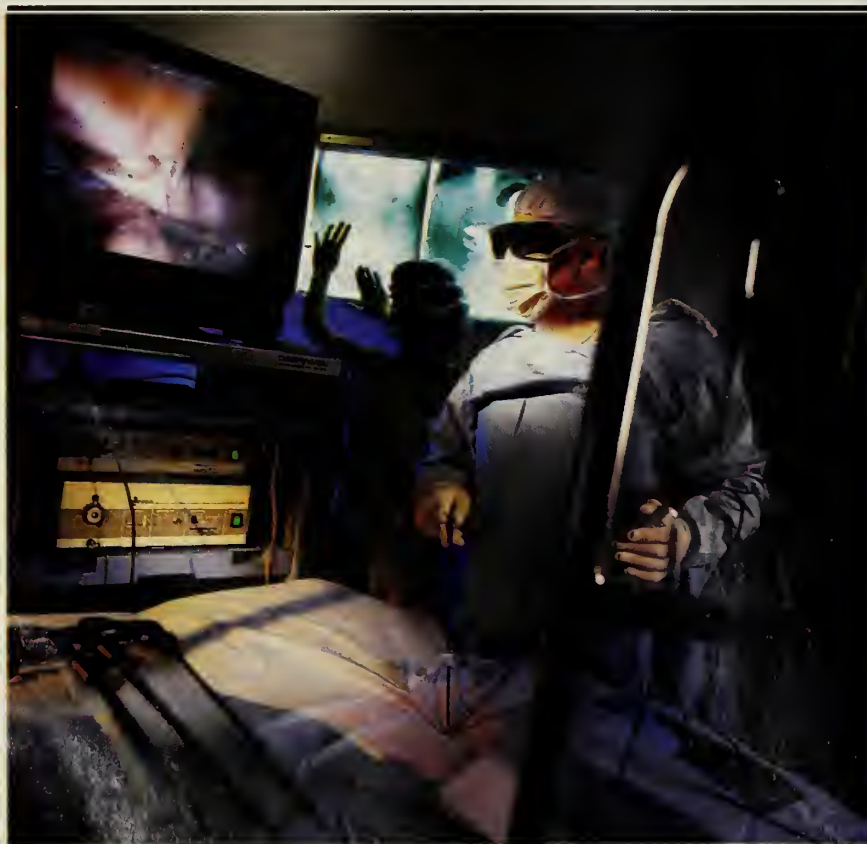
A two-camera method underlay the 3-D movies of the 1950s, which used two projectors whose respective images, filtered through colored glasses, could be seen only by one or the other eye. After a brief run that included Hitchcock's *Dial M for Murder*, the 3-D movie fad died.

But the technology hasn't died. It has long been theorized that a single camera might produce a stereoscopic effect under the right conditions. It wasn't practical to do this, however, until the advent of inexpensive digital video processing components. These can alternately show images to the right and left eye at a combined rate of 120 images per second. In place of the green and red eye filters of the old movie glasses, this system uses electronic shutters. Lenses flop from clear to opaque in response to an electric current that is kept in sync with the video screen via an infrared signal.

How do you get stereo viewing from a single camera? The system offsets every other image by a fraction of an inch. This physical separation can fool the brain. In the absence of movement, the brain has nothing to work with but two identical offset images, and the result is flatness. But the slightest movements provide clues from which the brain can extract a third dimension.

Some of this was the work of an English scientist, James Ashbey, who was looking for a way to revive 3-D films as an entertainment medium. Applying the technology to surgery was the inspiration of Gregory Diamant, 45, president of New York City-based Automated Medical Products Corp., and Dr. Baxter Garcia, a medical physicist who quit his job at the Albert Einstein medical school in 1993 to join Diamant. They paid Ashbey a fee, then developed their own system, which is awaiting federal approval. Main selling point: Their \$40,000 system can hook up to an endoscope the hospital already has.

If the medical device doesn't sell, there is always the entertainment market to fall back on. Garcia loaded Peter Gabriel's hit music video *Steep* into his videocassette recorder, and it singing star and dancing bombshell popped right out at him. He says Hollywood is interested.



Dr. Steven Becker views a hernia operation in 3-D
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The three kings take to the Net

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Orwell's Revenge*; his E-mail address is 72643.2211@compuserve.com.

THERE WERE THREE KINGS, it is written, who traveled from the East bearing gifts of gold, frankincense and myrrh. If you spot their likeness in front of city hall today, however, there's going to be a lawsuit. Religion on the public lawn is unconstitutional. When government tends the grass, the kings check out.

This state of affairs is a victory for the American Civil Liberties Union, which valiantly protects us, as Michael Kinsley puts it, from the "crèche menace." But is it a victory for civil liberties? Not if the government owns too much of the grass.

Similar things happen on electronic lawns. Some years ago PBS stations, under pressure from the federal government, which funds them, canceled *Death of a Princess*. The feds were buttering up Saudi Arabia, whose leaders were offended by the show.

Private broadcasters kowtow to the government, too, because Congress nationalized the airwaves in 1927. Ever since, broadcasters have had to contend with "public interest" and "equal time" rules that limit what they can air or refuse to air. One radio station came to grief for broadcasting George Carlin's dirty mouth. Another was slammed for refusing to let an author reply to an attack on his anti-Goldwater book.

Owning the lawn emboldens government to encroach on cable, as well. Local authorities claim the rights of way over and under streets; cable

operators pay for access by supplying free channels and TV equipment to local pols or their favorite "public interest" friends. More recently, federal lawmakers have tried deputizing phone and cable companies to police indecency on their networks. The Postal Service has always been nudged by its federal owners to promote this and suppress that; Congress' grossly abused franking privilege illustrates the possibilities.

There is a fundamental constitutional lesson here. Tax-and-spend is not just an economic issue. The more government takes from your wallet, the more it takes from your bill of rights down the line.

So far as religion goes, the arithmetic is carved in granite, in the establishment clause of the First Amendment. Once government occupies education, for

The National Endowment for the Arts funds the desecration of a crucifix but never funds the hallowing of anything in the name of the Almighty.

example, that much space, that many teachers, that many hours of the day are barred from entanglement with religion. When Ira Magaziner nationalizes health care, the ethics of abortion get nationalized, too; religious teachings may not influence the debate, for that might "establish" Catholicism over atheism. The National Endowment for the Arts can fund the desecration of a crucifix in the name of art; it could never fund the hallowing of anything in the name of the Almighty. The more the government sphere expands, the more the sacred contracts: It's as simple as that.

The same arithmetic applies, though a shade more loosely, with free speech. The cable companies, which have to hand over channels to air the debates of city hall, must take that much bandwidth away from the fireplace channel, which more people would watch.

The folks who cheer the ACLU are, more often than not, the same who say that government should spend lavishly on public parks, information infrastructure and the Public Broadcasting System. Let the public lawn sweep over an ever larger fraction of our land; then a benign public landlord will guarantee "equal access" to all.

This sounds wonderfully egalitarian, but rarely works out that way in practice. Once government has your money, the dollars inevitably drift toward the left and toward the secular. Left, because government action is inherently collectivist, and government bureaucrats exist to collectivize. Secular, because the Constitution excludes government from the realm of the sacred. Desecration of the crucifix is in, crèches are out.

The Internet may yet save us from further government encroachments. Though a brainchild of government itself, the Internet has broken free. The Net's standards and protocols were embraced by the private sector, and in time the whole system shook off its statist origins.

On the largely privatized Internet today, you can display a crèche or teach creation science all you like. Indeed, speech and religion are freer there than anywhere. But this is so precisely because control of the Net migrated out of public hands.

Most of us aren't interested in creation science, of course. But the only way to treat secular Darwinians exactly the same as religious creationists is to let each side proselytize and persuade as best it can. And the only way to do that is to leave the marketplace of ideas squarely in the marketplace itself.

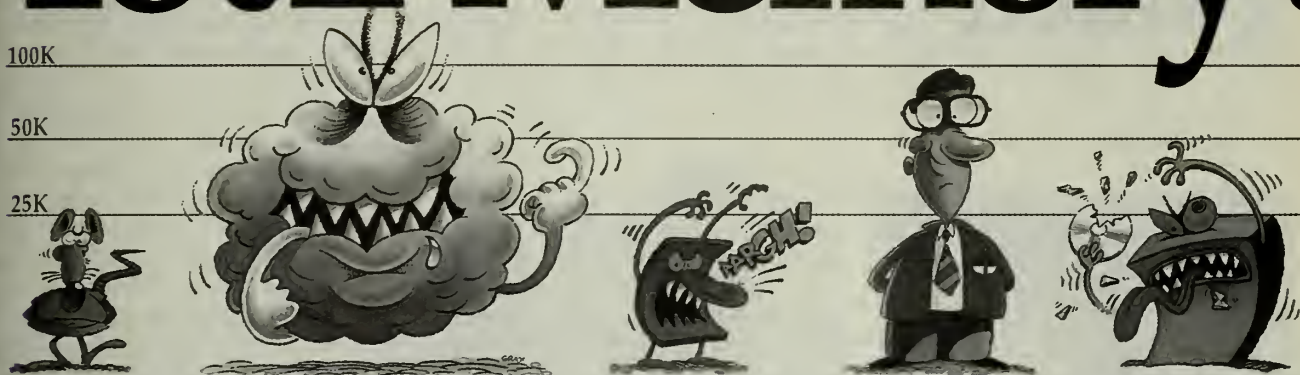
That means private buildings, not city halls; private lawns, not public parks. The ACLU and conservative alike should be repelled by grandiose schemes to federalize the information highway. Three kings can follow their star unmolested down that silicate trail only so long as the glass is bought and paid for by private citizens. ■

What's Eating Your Memory?

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Seventy-five years ago the Original Dixieland Jazz Band cut the first jazz records, "Livery Stable Blues" and "Dixie Jass Band One-Step," and the rest is history.

The Diamond Jubilee of Jazz,
February/March 1992



In the decade that followed World War II, the American automobile industry produced the most extravagant, outrageous, and desirable machines in the world.

Detroit Iron,
October 1991



Alexander had a horse named Bucephalus. Napoleon had Marengo. Robert E. Lee had Traveller, a strikingly handsome and elegant animal. In contrast, Ulysses S. Grant's Cincinnati was a slightly rumpled bay.

Getting Right With Robert E. Lee, May/June 1991

Commander Joe Rochefort, who disobeyed the intelligence bureaucracy and gave Admiral Nimitz raw intelligence data, changed the course of World War II.

The Biggest Theater,
December 1991



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Credit Card America,
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Like golf, improving your speechmaking is hard work, but well worth it.

"Unaccustomed as I am..."

By Vicki Contavespi

ALL OF US are called upon from time to time to give a talk. Most of us flop.

Why? Herewith ten mistakes business people commonly make when giving speeches.

■ Agreeing too readily to make a speech in the first place. Says John Donnelly, a McLean, Va. corporate speechwriter for 30 years, "Too many times speakers accept appearances, but they don't really have a message or a clue."

Before saying yes, get a clear idea of the audience. Do you have anything worth saying to it? If not, just say no.

■ Failing to ask for prime time. If invited to speak at a conference or on a panel, request right away to be first up, when the audience is fresh. What if they turn down your request? They probably won't, because very few people think to ask.

■ Leaving your introduction in the hands of others. Find out who is going to introduce you. If you don't like the choice, suggest someone you do. Also, don't simply mail in a bio. Write your introduction yourself.

■ Winging it. Just because you've given speeches before doesn't mean you won't be boring. It's like your golf game. Improving it takes real work, not mere repetition. Start preparing your remarks as soon as you can, even though the talk is weeks or months off. Don't leave it until the last minute, hoping inspiration will come; inspiration comes to those who beckon to her.

■ Delegating preparation of your speech. Don't! Reading a canned

script with which you are barely familiar is a guaranteed room emptier. Hired hands rarely will be gutsy about the words they are putting in your mouth. Nor are you likely to put much conviction into something that someone else thought up. Figure out



what you want to say; then if you want, hire someone to polish it for you. Seasoned speechwriters generally charge \$3,000 to \$5,000 for a corporate speech.

■ Forgetting that speechmaking is a form of show business and benefits from a few tricks of the theatrical trade. When you get to the podium, wait five seconds before saying anything; that builds a sense of anticipation. Scan the room, make eye contact so that people in the audience think you are talking to them, not to the walls. If you speak from a script or notes, glance up frequently. Don Epstein, president of Greater Talent Network, Inc., makes his living from the speech industry; his firm represents speakers such as Terry Anderson, P.J. O'Rourke and Tom Wolfe. Epstein has this advice: "There has to be a sense of warmth from the eyes,

the voice and the body language to connect with the audience."

■ Being self-deprecating. No one likes pomposity, but putting yourself down to show you're a regular guy can backfire. Labor Secretary Robert Reich often opens his speeches by alluding to his diminutive stature. That cheap way of begging empathy could persuade the audience that their man is insincere.

■ Trying too hard to be funny. Humor is the essential spice of any good talk—including a eulogy. But if you're not a good storyteller onstage, you'll stink up the joint onstage. Eye contact and sincerity will do more to relax an audience than unfunny jokes.

■ Overrunning the meter. Twenty minutes should be the maximum length of a talk, even though much more time—typically 45 minutes—is allotted.

■ Forgetting about follow-up questions. Ask yourself, "What are the five toughest questions I could get? What would embarrass me?" Be prepared with answers. To insure against standing there mute, plant a good question or two with colleagues. Or get things rolling by saying something like, "Two questions I'm often asked are. . ."

If you are called upon regularly to speak, consider getting help in polishing your act. A speech coach will typically charge \$250 to \$500 an hour.

One source for speechwriters and coaches, as well as for good tips on speaking, is *Vital Speeches of the Day* magazine (\$40, twice a month, City News Publishing Co., Mt. Pleasant, S.C.). Other good sources are veteran speechwriter Joan Detz's book *How to Write & Give a Speech* (\$9.95, St. Martin's Press) and *American Speaker: Your Guide to Successful Speaking* (Georgetown Publishing House, Washington, D.C.). Edited by Aram Bakshian Jr., former speechwriter for Ronald Reagan, *American Speaker* costs a tough \$297. In addition to giving shrewd advice, it contains a rich storehouse of quotes, historical dates, anecdotes, jokes and the like. It also entitles buyers to call up Bakshian for personal help on speeches.

The art nouveau style flourished briefly at the start of this century, then faded. As the century ends, its sensuous beauty is strangely appealing.

Tables with dragonfly legs

By Christie Brown

PARIS IN 1900, the very birth of this now waning century. Art nouveau—elaborate, daringly different—flashes into vogue in all the decorative arts.

At that year's glittering World's Fair in the City of Light, there is furniture by masters of the genre, Louis Majorelle, Emile Gallé, Hector Guimard.

Restaurants like Maxim's and Julien's are showcases for the sensuous style, with its forms taken from nature and from the female body. The serpentine entrances to the Paris Métro, designed by Guimard, still fill Parisians with pride.

Yet the moment is brief. Started around 1890, art nouveau spreads across Europe, eagerly accepted by a newly affluent middle class as well as by the upper crust. But by 1910 people tire of it. Art nouveau is derided as decadent, overblown and vulgar.

As this century fades, people are again finding art nouveau wonderful stuff to live with. The hottest area is art nouveau glass, adored by Japanese collectors. Prices took off in the late 1980s, dropped, and are now rising again with renewed Japanese interest. But with no space in their homes for furniture, the Japanese are not big buyers.

Nevertheless, some of the best furniture has done particularly well over the

past year, fueled by a series of single-owner sales. At the top of the market are the rare pieces by Scottish architect Charles Rennie Mackintosh and the Austrian designers Josef Hoffmann and Koloman Moser.

Last year a cabinet by Moser brought \$540,000 at Sotheby's London, a record for Moser. A Mackintosh writing cabinet of ebonized ma-



Dragonfly table by Emile Gallé
About \$30,000, up 30% in ten years.

hogany fetched \$1.2 million at Christie's London—a record for 20th-century furniture.

Of the French designers, top names are Guimard, Georges de Feure and Eugène Gaillard. Their pieces fetch up to \$170,000 but rarely come on the market.

But best known is Louis Majorelle, the cabinet maker famous for his richly ornamented pieces with undulating shapes of water lilies and orchids. Majorelle designed entire lines of lamps, furniture and wrought-iron banisters, all turned out in his factory in Nancy, France. Today his best pieces, originally made in small editions, bring up to \$250,000 at auction.

The art nouveau movement grew out of a desire to break with the perceived ugliness of so many products of the early industrial age. Throughout the 19th century, furniture makers, for want of fresh inspiration, merely churned out copies of earlier styles.

Fed up with the lack of innovative design, artists drew inspiration from two sources. One was England's Arts and Crafts movement, which espoused unity among the arts and preached the need



Paris Métro, Porte Dauphine station, designed by Guimard
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Louis Majorelle furniture with orchid pattern
Motifs of nature were the unifying theme.

for beauty in everyday life. The other influence was Japanese art, then in vogue in Europe, with its daring, fluid lines.

Europe's architects provided momentum for the movement. Victor Horta, a Belgian architect, jump-started art nouveau after building Tassel House in Brussels in 1893. Horta had designed and furnished the entire house with a decorative motif of creeping, plant-like tendrils running over the walls, arches and windows. The unified concept and airy design were a revolutionary break from the dark and ornate interiors of the Victorian age.

The essence of the art nouveau movement was its spontaneity and eccentricity. Styles varied greatly by country and so did the name of the movement. The unifying theme was a yearning to capture the essence of nature in art.

In Belgium it was known as *Paling Stijl* (eel style), in Spain as *Modernista*, in Italy as *Stile Nouille* (noodle style), in Germany as *Jugendstil* (youth style), in Austria as *Secession*.

In France, the new art was originally called *Le Modern Style*. It later

became known as art nouveau, after a prominent Parisian gallery, Maison Art Nouveau.

Art nouveau played only a small part in the U.S. during its heyday—



Charles Rennie Mackintosh chair, 1904
A cabinet recently fetched \$1.2 million.

Louis Tiffany was the one major player, although his work was less stylized than that of his French counterparts. The American Arts and Crafts movement went its own way, emphasizing simplicity and deliberately eschewing the ornate. But oddly enough, one of the greatest collections of art nouveau anywhere in the world was put together by a pair of Virginians, Sydney and Frances Lewis, founders of Best Products Co.

Now retired, the Lewises started collecting in the late 1960s, when few pieces cost more than \$6,000. Gradually, their Richmond home became filled with beds and armoires by Majorelle, desks by Guimard, silverware by Hoffmann, tables by Gaillard, a sideboard by Gallé and chairs by Moser, Mackintosh and the Italian Carlo Bugatti.

The Lewises found most of the stuff at Sotheby's and Christie's in London, and the Hôtel Drouot auction house in Paris. Dealers included Lillian Nassau and the Macklowe Gallery, both in New York, and the Galerie Félix Marilhac in Paris.

After years of opening their home to scholars and school groups to see the furniture, in 1985 the Lewises finally decided to donate their hundreds of pieces to the Virginia Museum of Fine Arts in Richmond. The best public collection of art nouveau in the U.S., part of it is now on exhibit at the Bard Graduate Center in New York City through February.

Collectors will not find many bargains. Over the last decade, prices have risen about 30%. A famous "dragonfly" table by Gallé now brings \$25,000 to \$30,000, up from about \$20,000 in 1984. But the market is spotty. Many tables and chairs mass produced by Majorelle and others sell for under \$5,000. It takes expertise to know the difference between the custom pieces and the factory pieces. So patient shoppers who don't require top-of-the-market stuff can still do fairly well. "One sale will be a flier, then the next a total squallor. You can never tell," says Sotheby's decorative arts pro Barbara Deisroth.

Two worthwhile books are *Art Nouveau* by Alastair Duncan (Thames Hudson, \$14.95) and *Art Nouveau* by Klaus-Jürgen Sembach (Taschen, \$19.98).

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Front woman

WHEN Coudersport, Pa.-based cable firm Adelphia Communications wanted in on October's Federal Communications Commission auction of two-way paging licenses, it recruited Lisa-Gaye Shearing, 37. "They thought I would be a good partner," she says.

No doubt. By handing Shearing 50.1% of new company Page Call, Adelphia gets the FCC's special payment terms for women-owned firms, including a 40% discount

on its \$53 million bid for licenses in the Northeast, Southeast and Midwest.

There's more than gender involved. For 13 years Shearing was a banker to cable firms at Toronto Dominion Bank and Tampa, Fla.-based Communications Equity Associates. Those contacts will be a boon to Adelphia, which will market Page Call's paging services via cable.

And Shearing won't put up one cent for the deal. Terms any banker would love.



Page Call's Lisa-Gaye Shearing
Something for nothing.

Checkmate

ANIL GAJWANI, Indian-born son of a chess champion, came to the U.S. in 1976 and made his first million by age 21, turning \$10 million (sales) Insta-Check Systems into the nation's largest independently owned check-verification firm.

Now he's ready to play a new game—paging. At the FCC auction of regional two-way paging licenses in October, Gajwani bought a Southeast li-

cense for a mere \$8 million; others paid as much as \$19 million.

Considered a minority, Gajwani, 35, qualifies for the FCC's special payment terms. But with \$60 million in startup costs, can he compete against telecommunications giants vying to buy him out? "That's the exciting part," says Gajwani. "To pull it off when the whole world says you can't."

—JULIETTE ROSSANT



Chess aficionado Anil Gajwani
He's ready to play the paging game. But is his minority status enough of an edge?

Busy signals

AN ENTHUSIASTIC salesman with a Harvard M.B.A., John Beletic has a penchant for fast-growing technology businesses. In the late 1980s he turned around a nearly bankrupt operator of voice-mail systems and sold it to Ameritech for \$45 million.

Now, Beletic, 43, runs Dallas-based PageMart. Already the nation's fifth-largest paging company, with 750,000 customers and \$100 million in sales, PageMart paid the FCC \$130 million for the equivalent of two nationwide licenses last year. By early

1996 Beletic hopes to use those licenses to offer pagers that return a response to the sender.

To finance the future, PageMart tried a public offering last summer, but investors balked at the rich offering price for the still moneylosing firm. So majority owner Morgan Stanley and other institutional investors stepped in with cash. Now hoping The Street will be friendlier, Beletic plans to take PageMart public later this year. "I don't believe anyone could identify an industry with more potential," he says.

—CHRISTOPHER PALMER



Technology enthusiast John Beletic of PageMart
"I don't believe anyone could identify an industry with more potential."

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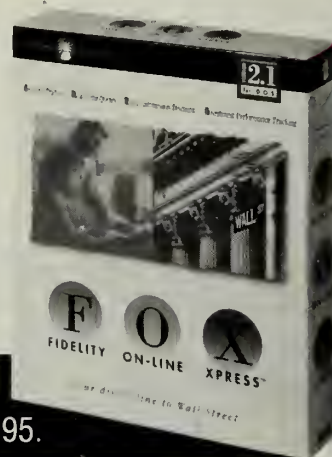


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Some Wall Street strategists expect 1995 to be a much better year for stocks than 1994 was. One such bull is Dennis Jarrett, of Jarrett Investment Research, who expects a 20% to 25% gain in the Dow Industrials this year.

One reason for Jarrett's optimism is that stocks of depressed industries like banks, utilities and insurance companies are beginning to show signs of recovery. Also boding well for the market, says Jarrett, are the likelihood of a decline in long-term interest rates, and a high degree of negative sentiment among investors.

Jarrett's favorite sector at present is technology. One of his favorite stocks is Cisco Systems, which makes networking software. Cisco sells for 25 times earnings—high compared with the overall market—but at a 19% discount from its 52-week high. Another pick is EMC, which manufactures memory storage systems for main-frame and mid-sized computers.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	1.2 %	-3.5 %	-7.1 %
S&P/Barra Growth index ¹	2.4	3.5	-1.9
S&P/Barra Value index ²	1.6	-1.7	-5.5
Dow Jones industrials	1.8	1.1	-4.4
S&P 500	1.9	-1.6	-4.6
NYSE	1.7	-2.8	-6.3
Nasdaq	0.4	-2.5	-8.3
Amex	-0.3	-7.5	-12.3
EAFE ³	-0.1	5.1	-5.7
CRB futures index ^{4,5}	2.4	4.0	-7.7
Gold ⁵ (Comex spot)	1.5	-1.1	-9.7
Yen ⁵ (per \$US)	0.5	-9.0	-37.4
Oil ⁵ (W Texas Intermediate)	0.9	16.4	-58.7

The best and worst performing stocks

Best	Price	2-week change	1995 EPS ⁴	Worst	Price	2-week change	1995 EPS ⁴
Caesars World	66	59%	\$3.79	US Bioscience	2	-70%	\$-0.35
Tekelec	30 3/4	45	1.20	Brookstone	6 1/2	-48	1.23
NetManage	35 3/4	42	1.29	Preferred Entertainment	11	-36	NA
Transco Energy	16 5/8	36	1.22	Cyrix	20	-35	3.00
Cato	7 7/8	35	0.84	Investment Tech Group	5 5/8	-30	0.84

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/93	Worst	2-week change	Since 12/31/93
Trucking	10.7%	-11.4%	Oil refining, distributing	-0.6%	4.3%
Consumer durables	7.1	-13.7	Railroads	-0.3	-13.2
Containers	6.4	-5.5	Cosmetics	0.5	21.4
Property, health insurance	6.3	4.4	Tobacco	0.9	-6.9
Water transport	5.7	-7.4	International oil	1.1	-7.7

Special focus

Rising interest rates have hurt the title insurance firms. When rates rise, mortgage refinancings slow. The average stock below is off by more than a third from its 52-week high, and now sells at less than 9 times estimated 1995 earnings. These stocks could be bargains if the Fed's string of rate increases has run its course.

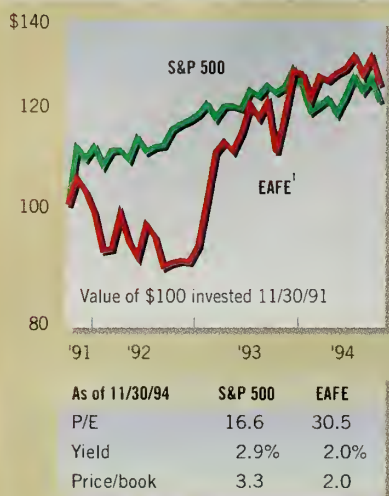
Cheap insurance

Company	Recent price	1995 est P/E
Fidelity National Finl	11	7.4
First American Finl	17 3/4	7.4
Investors Title	6 3/4	5.5
Lawyers Title	10 3/4	7.4
Old Republic Intl	20 5/8	8.1
Reliance Group Hldgs	5 1/4	6.1
Stewart Information Svc	15 3/8	8.3

Source: IBES, Inc.

Note: Data for period ending 12/21/94. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Source: Knight-Ridder Financial Publishing. ⁶ Estimate. Source: IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

Foreign vs. U.S. markets



Developed markets

Market	Total return ¹		P/E
	3 months	12 months	
Sweden	7%	33%	32
Finland	3	56	NM
Singapore	3	29	20
New Zealand	1	27	13
Netherlands	-2	15	15
Hong Kong	-15	-7	14
Italy	-12	23	NM
Austria	-10	-2	NM
Malaysia	-10	2	26
Australia	-7	15	15

Emerging markets

	Total return ¹		P/E
	3 months	12 months	
International Finance Corporation indexes			
IFC Investable ³	-5%	15%	23
IFC Global ⁴	-3	26	24
Market			
Peru	21	89	60
Chile	14	71	26
Turkey	13	-30	32
Poland	-26	-17	17
Venezuela	-18	-23	55
China	-14	-25	24

How are global investors looking at foreign stock markets in 1995? Peter Oppenheimer, an international investment strategist at London brokerage James Capel, is sticking with France, Germany and the U.K., despite disappointing returns last year. The lures: productivity improvements and earnings growth in these nations, and an end to rising long-term interest rates. Outside of Europe, Oppenheimer favors Hong Kong and Australia.

In our hemisphere another global investor, Juan Mesa, head of the Latin American research team at J.P. Morgan

in New York, believes Brazil's stock market will advance at least 45% in 1995. Mesa is betting on the outcome of market-oriented reforms to be implemented by the country's new president, Fernando Henrique Cardoso, who took office Jan. 1. At present, the Brazilian government owns controlling stakes in companies representing three-quarters of the nation's stock market capitalization, but Mesa expects the new government to reduce the state's holdings dramatically. (For more on global investing, see story, page 67.)

Who's hot

Company/country	Business	Price	3-month price change	P/E
Financiere Agache/France	consumer goods	241 ^{3/8}	43%	22
Lloyd Adriatico/Italy	insurance	11 ^{5/8}	32	26
Nokia/Finland	electronics	136 ^{3/8}	26	60
Autoliv/Sweden	auto parts	35	20	44
Nippon Soda/Japan	chemicals	6	20	10

Who's not

Company/country	Business	Price	3-month price change	P/E
Aoyoma Trading/Japan	discount stores	22 ^{3/8}	-43%	11
Daito Trust Construction/Japan	construction	12 ^{7/8}	-38	10
Hongkong Ferry/Hong Kong	shipping	1	-37	19
Riunione Adriatica/Italy	insurance	9 ^{1/8}	-34	13
Dollfus-Mieg/France	textiles	56 ^{7/8}	-32	23

Cheap foreign stocks

Company/country	Business	Price	Earnings	P/E
Royal Insurance Hldgs/UK	insurance	4 ^{5/8}	\$ 0.75	6
Peregrine Invest/Hong Kong	financial svcs	1 ^{1/2}	0.21	7
Sime Darby/Hong Kong	trading	1 ^{1/8}	0.16	7
Stena Line/Sweden	shipping	5	0.74	7
Grand Metropolitan/UK	food & beverages	6	0.47	13

High-yielding foreign stocks

Company/country	Business	Price	Yield	P/E
Westfield Trust/Australia	real estate	1 ^{3/4}	8.0%	13
Ocean Group/UK	shipping	4 ^{1/4}	6.6	14
Kinross Mines/South Africa	gold mines	17	6.0	11
B.A.T Industries/UK	tobacco, insurance	7	5.8	11
Banco Central Hispano/Spain	banking	23 ^{1/8}	5.8	13

Note: Data for period ending 11/30/94. Selected stocks have a market capitalization of at least \$300 million. ¹Shows price return on the EAFE index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. ²Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. ³Index of stocks available to foreign investors. ⁴Index of stocks available to foreign and domestic investors. NM: Not meaningful. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation.

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If you want to invest some of your money abroad, why not get a little more bang for your buck? Put together a discounted portfolio of closed-end country funds.

Europe and Asia, 10% off

By Mary Beth Grover



AT YEAR-END 1993, a group of 82 closed-end country and regional funds tracked by Smith Barney analyst Michael Porter traded at a heady average premium of 12%. These stocks, listed here but with their assets in foreign securities, were trading 12% above the net asset values of their underlying portfolios. People were so eager to invest in specific foreign countries or regions that they were willing to pay substantially more than the shares were worth to own them.

Today those premiums have wasted away and the same closed-end country funds sell at a 10% average discount; many are discounted by 15% or more. "There haven't been discounts like this since Saddam Hussein bombed the market back in 1990," says Porter.

This can get pretty rough. When a fund swings from a 10% premium to a 10% discount the investor gets hit with a loss of 18% of his capital. If the net asset value drops at the same time, he can easily lose 30% or even 40% in a relatively short time.

The moral is: Never, but never, buy into one of these funds unless it sells at a discount from its net asset value. (Every Monday the *Wall Street Journal* carries a listing of closed-end funds with their discounts or premiums noted.)

Still, if you want to put some mon-

ey abroad and can stand the risks, this is a good time to go abroad via country and regional funds, because so many of them are selling at discounts. Germany, India, Thailand and speculative Africa can all be had at discounts of at least 20% below net asset value (see table).

Both G.T. Greater Europe and Eu-

rope Fund trade on the NYSE at discounts of 12% below net asset value. Each is a respectable performer with heavy exposure to smaller stocks, which have just started to shine in Europe.

There's an extra kicker in these two funds—and in a few others, too. Because of their recent discounts, in this year's second quarter both of the Europe funds must either consider tendering for shares at net asset value or allow shareholders to vote before February 1996 on converting to an open-end structure. In an open-end fund, investors always have the option to redeem their shares at NAV.

Growth Fund of Spain has a similar kicker. Even as its net asset value return, including distributions, rose 6%, its market price on the New York Stock Exchange sank 2%. As a result, the fund now trades at an 18% discount. If the fund's discount remains deeper than 10% throughout the final quarter of 1994, management in April must allow a vote to open-end if holders of at least 10% of the shares requested it in writing by the end of 1994. Were this to happen, the fund's holders would get an automatic 22% gain in market value.

Other open-ending possibilities can be found in the closed-end field.

Why you should buy closed-ends secondhand

Fund	Total return last 12 months ¹	Net assets (\$mil)	—Discount— recent 52-week 12/16 average		Annual expenses per \$100
Europe ²	11.4	\$134	12.0%	8.2%	\$1.85
Future Germany	5.3	214	20.0	15.2	1.53
Global Privatization ^{2 3}	2.0	1,090	13.5	9.7	2.01
Growth Fund of Spain ²	9.4	214	18.0	15.3	1.22
GT Global Developing Markets ³	-7.2	511	19.9	10.6	2.03
GT Greater Europe ²	0.9	232	11.9	8.6	2.24
India ³	0.4	507	19.8	10.3	2.01
Morgan Stanley Africa ³	6.0	227	22.8	13.5	2.16
Schroder Asian Growth ^{2 3}	-10.6	252	15.2	4.5	1.75
Southern Africa Fund ^{2 3}	34.4	110	19.7	13.3	2.35
Thai	-9.1	335	21.8	9.2	1.38
United Kingdom ²	2.8	53	17.2	10.5	2.09
Average foreign closed-end	-1.3				

¹Portfolio performance, not performance of fund shares. ²Fund has open-ending or tender-offer provisions. ³Fund in existence for less than one year. Total return and average discount figures cover period since inception, not annualized. Sources: Lipper Analytical Services; Forbes.

These foreign closed-end funds all came out at premiums to their portfolio values. Now you can get them at attractive discounts to portfolio value. Some even offer the faint hope of shrinking or erasing that discount.

Take Global Privatization Fund, which came public last March at a 7% premium above net asset value. The fund buys stakes in state-run firms that are being sold to the public by governments around the world. Global Privatization recently traded at a 14% discount.

"This is a gimme with a capital G," says Porter of Smith Barney. Why? The fund will tender for shares beginning the third quarter of this year if during the previous quarter its discount averages at least 5% and its price remains below 15. At a recent price of 12, and that 14% discount, a tender looks likely.

A few other newly minted funds have tender-offer provisions. Beginning in January 1997, if Schroder Asian Growth Fund's shares trade at an average discount exceeding just 3% during the previous quarter, the fund

"This is a gimme with a capital G."

must do a tender offer at NAV. Recent discount: 15%. Southern Africa Fund, meanwhile, must buy in shares at net asset value starting in the second quarter of 1997 if a 5% discount persists in the previous three months and its share price is below 15. Southern Africa's recent discount: 20%.

Note carefully, however, that it is by no means guaranteed that these open-ending provisions will ever kick in. There are plenty of ways for a fund's managers to weasel out of a stated obligation to open-end or to tender for shares (FORBES, Sept. 26, 1994). Furthermore, shareholder votes are unpredictable. In 1990, 1991 and 1992 the United Kingdom fund submitted an open-ending proposal to its shareholders. Each time, shareholders voted to keep the closed-end format; now the discount averages at 17%.

So don't get the idea that closed-end country and regional funds are a sure thing. In markets, nothing is guaranteed. But if it makes sense to you to put some of your money abroad, assembling a selected portfolio of deeply discounted closed-end funds is a smart way to do it. ■

Forbes ■ January 16, 1995



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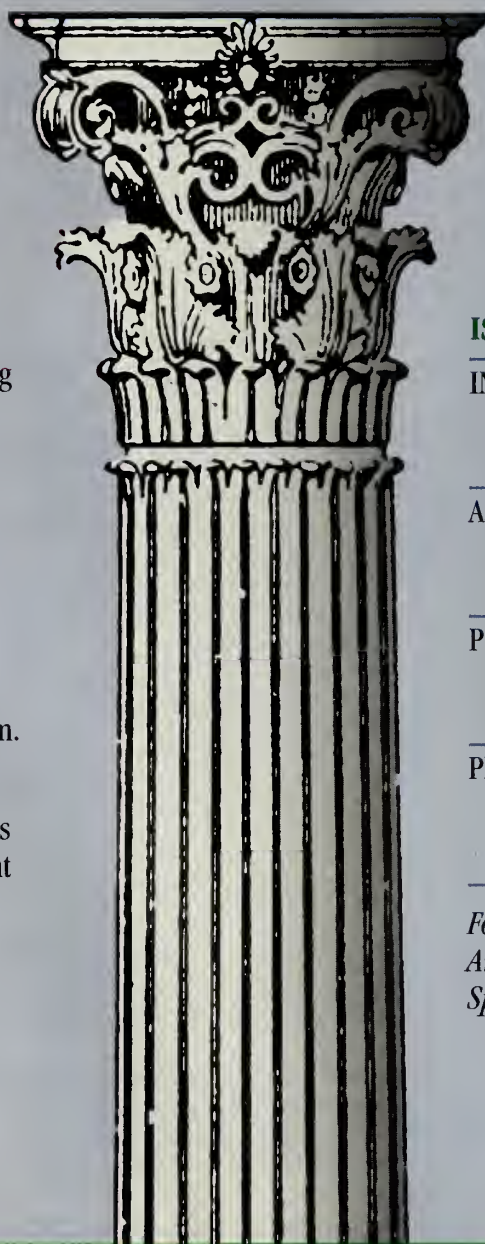
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I am extremely bullish for the new year:
Stocks could rise 20% to 40%.

A year of the bull

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. His third book is *100 Minds that Made the Market*.

THIS YEAR will be a good year in the stock market.

With a few notable exceptions, a bad year has led to a good one—and 1994 was a bad year.

Measuring the market by the S&P 500 over the 69 years since 1925, there were only three periods when it didn't pay to buy after a bad calendar year. The exceptions were the four Great Depression years, the three years leading to World War II, and 1974, when a bad 1973 led to a horrible 1974.

So, for 61 of the 69 years, my pattern held: bad year followed by good year.

The cases in point overwhelm. On average these single-year drops led to a year rising 24.2%. As John Templeton is famous for saying, the four most dangerous words in the English language: It's different this time. It's probably not different this time, so 1995 is likely to be good for investors.

Granted, I was too bullish in 1994. But while 1994 was bad, it wasn't that abnormal. Of the 18 years in which we have had midterm elections since 1925, the median return was positive—6.6% per year. But the market fell 8 of those 18 times, or 44% of the time. So 1994's odds weren't great.

Also going for the market in 1995: As detailed in my Sept. 26, 1994 column, the year after a midterm elec-

tion is almost always good, with gains averaging 18.6% since 1925 and only down twice—1933 and a sub-1% drop in 1939.

I expect stocks to shock almost everyone in 1995 with a 20% to 40% rise. Let me list my reasons.

- Too much pessimism. Forecasters are mostly bearish, and so are nine out of ten investors I talk to.

- The yield curve is nicely upward-sloping (long-term interest rates are well above short-term rates).

- Inflation remains low. Our current economic expansion has been moderate, which should help it to be long-lived. Europe is now expanding after a long recession and a wicked market decline in 1994.

- Bill Clinton is a lame duck. Congress is Republican.

- Heavy net insider buying.

- Valuations are the most moderate they have been since 1990.

Good years generally follow poor years in the stock market; 1994 was a poor year.

- And 1994. Here are some stocks I recommend for a happy 1995:

Intermet (5, o-t-c), America's largest independent iron foundry. Like most of the metals firms, it didn't do well in the 1980s. It is down 45% in the last year and is now just one-third of its 1987 peak price and less than half its 1992 peak of 13. At 1.6 times book value and 29% of annual revenue, there is vast upside potential for this firm, which the market values at \$135 million. I think it could earn more than \$20 million in 1996, and then the stock should get to 12 or 15.

Frontier Insurance Group (22) is among the best-managed firms in an

industry that is much too cheap after eight years of tough times. Better times will come soon for insurers, and casualty insurance in particular. Frontier will then evolve, to be seen as a premier growth stock. But now you can buy it for 1.5 times book value and 19 times earnings.

United Stationers (12, o-t-c) is a leading wholesaler of office supplies and equipment. It is down 21% in the last year, as corporations have squeezed their office supply needs in the name of efficiency. But you can push inventory only so far, and this leading vendor will get its share of the bounce back. Down from 20 in 1993, and at 13 times earnings, 14% of revenue and 86% of book value, with a fine balance sheet, this stock could beat 15 easily. While you wait, the dividend is 3.5%.

Jenny Craig (7) has lost more market weight than its TV ads could ever claim for human weight loss: down 79% from a once fat 33 in 1992. Now that it's trim, it's time to buy. This once glamorous growth stock outgrew its founding chief executive, Sid Craig, and flew out of control and into red ink. The company recently brought in Joseph LaBonte, former president of both Reebok and Twentieth Century Fox. I think he will succeed as chief executive in getting the firm back on track. Certainly the health trend toward weight loss won't fade. At 48% of revenues Jenny Craig could see 10 in 1995 and more later.

If the market rises in 1995, brokers will, too. *Raymond James Financial* (14) is a strong regional broker that is cheap on the surface: a P/E of 7 and 1.2 times book value. It's much cheaper than that. The market says this firm is worth \$280 million. Its asset management subsidiary alone could be sold for half that, so you get the brokerage business for very little. Expect at least 20 for this fine firm. It pays 2.3% while you wait.

If the top-performing bond market letters are right, it's too early to buy bonds again.

Hold your fire

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors the performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

BATTERED by Orange County and Alan Greenspan, are tax-free municipal bonds now a buy? Good long-term muni bond funds currently yield 6% and more.

For an answer to the question, I checked with the best-performing bond-timing investment letters. The consensus view: not yet.

The 1994 decline in bonds was a gift to those of us who look to investment letters to gain insight into the market: It separated the men from the boys among the bond letters. Prior to the decline, in fact, not one of the bond timers tracked by the *Hulbert Financial Digest* had beaten a buy-and-hold strategy since 1986. Now there are three that have done so: *Systems & Forecasts* (Gerald Appel), *Fund Exchange* (edited by Paul Merriman), and *Marketarian* (Gerald Theisen and Jeff Helleberg).

What methods do these three market beaters employ? Both Appel and Merriman use moving average systems. That is, they become bullish when the market rallies above its average recent level—and bearish as the market declines below that average. Such systems tend to work because the market's trends persist: In other words, a trend in motion tends to stay in motion.

A portfolio that switched between the bond market and cash over the last eight years on Appel's signals gained 86%. In contrast, a buy-and-hold in the average U.S. government bond gained 79%. That's pretty impressive when you realize that Appel achieved it with 30% less volatility (or risk) than the market itself.

Merriman's record is similar to Appel's. His strategy also produced an 86% return over the last eight years. And like Appel's, it had 30% less volatility than the market itself.

The major difference between Merriman and Appel is the frequency of their switching. Over the last eight years, for example, Merriman has generated about four switches per year on average. Appel, in contrast, has generated seven per year on average—almost twice as many. This is important information for speculators who use mutual funds, because many mutual fund families restrict the frequency of switching. For these people, the Merriman approach would be preferable.

Like Appel's and Merriman's, Theisen and Helleberg's bond-trading strategy is based on technical analysis. But instead of focusing on a single moving average, they rely on a wide variety of other technical indicators. Their switch signals have just barely beaten a buy-and-hold over the last eight years—78.9% versus 78.7%. But they were able to do so with dramatically less volatility—only half as much as buying and holding. Again, that's a valuable combination.

All three are currently bearish on bonds. What would it take to turn these top performers bullish again? For Appel and Merriman, even a short-term buy signal wouldn't occur until bonds rallied back above their average level of the previous few weeks. For indications that the longer-term picture also is improving, Ap-

pel recommends that we focus on three events: T bill yields must decline by at least 0.5% from their peak, T note yields must fall below their levels of six months previous, and the discount rate must be lowered.

It's less easy to predict what it would take for Theisen and Helleberg to become bullish again, other than a general improvement in their technical indicators.

Which bond mutual funds should you favor when the bond market does turn? Appel favors two high-yield funds: Invesco High Yield and Federated High Yield. These funds invest in junk bonds and thus are high risk. But Appel believes—with justification—that he can reduce this risk by successfully switching into cash during market declines.

Top-performing bond timers believe that the bear market has yet to run its course.

Merriman also would buy the Invesco High Yield fund upon turning bullish. In addition, he would favor Safeco High Yield (another junk bond fund), Dreyfus A Bonds Plus (higher-grade corporate bond fund) and Value Line U.S. Government Securities (a government bond fund).

Theisen and Helleberg trade T bond futures instead of bond mutual funds. One fund that mimics T bond futures (without the leverage) is Benham's Target Maturities Trust-2020. This fund holds, and does not trade, a basket of government bonds maturing in 2020.

I'll keep watching. When I see signs that these top letters are becoming bullish again, I'll let you know. ■

Last year was a frustrating one for bulls and bears alike. Bears predicted rain. Bulls built arks.

The Noah Principle

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of Birinyi Associates, a Greenwich, Conn.-based financial consulting firm.

ONE OF THE OLDEST clichés in the world of Wall Street is that postmortems don't pay dividends. I disagree and feel that a healthy review of mistakes at year-end, or at any other time, can be one of the more profitable exercises an investor can undertake.

In taking a postmortem of my own 1994 performance, I found that the majority of my profitable trades were those I held for 30 days or less, while positions I held for more than a month tended to do not nearly so well. It was a frustrating market, but the end of the world didn't happen, as was predicted. In fact, the bears never quite told us why it would end or what we should do to protect ourselves.

Remember the Noah Principle. I am not sure if Warren Buffett first articulated it, but I first heard this concept from him: Predicting rain doesn't count; building arks does. The past year was a frustrating one for bulls and bears alike. The market gave all sorts of false starts—in both directions—but never satisfied either side.

At least bulls like me told you what to do, and picked stocks. We built our arks. The bears generally moaned and groaned. It is easy enough to say that things aren't bright, stocks are over-

valued, the economy is too strong and so forth. That's predicting rain. It isn't building arks. Building arks is telling investors what they should do about the deluge that is supposedly about to burst upon us.

Should we have built gold arks against the fateful cataclysm? Most gold investments were not fruitful in the year, as the metal went from \$392 at the beginning of the year to \$383 by late December.

The bears did tell us to "avoid overvalued stocks." Big help, that! Which stocks? When? Shouldn't "overvalued stocks" always be avoided? That's just another version of the old "buy low, sell high" cliché.

Should we have held cash? Maybe so, but if that meant selling stocks, we simply would have been exposed to a lot of capital gains. And what's more, we would have been sold out of some very good stocks.

The trouble with the bears is that most of their advice has been too general—predicting rain but not

with it? It did tank, but the New York market kept going up. Tokyo is down 50% from its highs and, whenever I check, everybody is still functioning at Broad and Wall.

So I remain bullish. The coming of a new year is no reason in itself to change anything. There are some developments that are bolstering my positive outlook. These are not by-products of the so-called January Effect. They just happen to be occurring at year's end.

Foremost among them is Orange County and, to a lesser extent, Mexico. Orange County and the problems at several well-publicized money market funds are educating investors to the risks of money funds and other "safe" investments. The stock market may carry more risks, but those risks are also more likely to be disclosed, while those of some alternatives are not. As a result, I am not going to make any dramatic shifts.

I still like many consumer names and once again highlight *Nike* (76),

The bears never told us why the world would end or how we should protect ourselves if and when it did.

building arks or even providing umbrellas. They told us last year that the public may dump mutual funds and precipitate a market decline. Maybe, but where is the supporting evidence or data? It hasn't happened. Maybe it will, but the wise investor bases his actions on facts, not on fears.

Fears are lousy investment advisers. Remember how in the 1980s everybody worried that the overpriced Tokyo market would tank and take us all

Gillette (76) and *Bristol-Myers* (60). And despite the gains they have made since we first mentioned them, I still beat the drum for *McDonnell Douglas* (143), *Wells Fargo* (146) and *Texas Instruments* (75).

In addition, I would like to suggest a new area—telephones. *GTE* (31) and some of the regional bells, such as *BellSouth* (54), *Ameritech* (42) and *Nynex* (37), provide growth potential and pay rewarding dividends. ■

Rising interest rates threaten prosperity, but there's a simple way to counteract the damage.

History lesson

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Greenwich, Conn.

OF ALL HUMAN weaknesses, short memory and its handmaiden, ignorance of history, are most likely to get us into trouble. We build grass huts on the sides of volcanoes and office buildings on the San Andreas Fault. We are nevertheless shocked when volcanoes erupt and tectonic plates shift. We turn defense plants into bus factories at war's end, then are shocked to find there are still bad guys out there.

Which explains why Orange County declared bankruptcy last year. Somebody forgot his history. History showed that erratic movements, up and down, normally characterize interest rates. However, the systematic property deflation of 1989-93 created a period during which interest rates went only down. At the end of the run in October 1993, rates were at their lowest levels in three decades. It should have been clear (except to people who build grass huts on volcanoes) that the bull market in bonds was going to end sooner or later.

But no, otherwise sane people figured out that betting on declining interest rates was an easy way to make money. All they had to do was borrow short-term money and invest it in bonds, thus collecting both the positive spread between short- and long-term rates and a capital gain on their bond position.

While the game lasted, it was easy and lots of fun, and nobody enjoyed it more than the treasurer of Orange

County. Orange County's bankruptcy was not caused by fraud. It was caused by greed and a short memory. And it is only the tip of the iceberg, as we will see in the weeks to come.

Unfortunately, when a few greedy amateurs get caught by rising rates, the whole market pays the price. Forced bond sales to cover the debts of an insolvent investor drive bond yields still higher for everyone, which in turn exposes other leveraged investors.

The fundamentals are pushing rates higher as well. The extraordinary growth in the world economy is causing intense competition for capital, giving investors attractive alternatives to U.S. fixed-income investments. Here at home, shortages are growing and inflation is rising; in December Ford announced a stunning 17% increase in the base price of its Explorer, compared with a year earlier.

The November Producer Price In-

In financial markets, ignorance of history is more dangerous than outright fraud.

dex figure—over 6% annualized inflation—suggests inflation is becoming more visible; more bad news ahead for the bond market. And where the bond market goes, the stock market is sure to follow. Last year pension funds and other U.S. investors lost nearly \$1 trillion in bond and stock investments combined.

This massive net worth erosion for America's households and businesses cannot go on forever without undermining the economic growth that we need to improve living standards. These rising interest rates—of which Orange County is just one victim—threaten the current recovery.

Happily, the federal government has the power to restore much of this lost value almost overnight. It need

only eliminate the tax on capital gains. By reducing the aftertax cost of capital used to discount future cash flows, elimination of this tax will undo much of the damage caused by rising interest rates during the past year. Here's how it works:

Capital gains currently are taxed at 28%, compared with a top federal rate of about 42% on dividend and interest income. By our estimate, at current dividend payout rates and at today's interest rates, that results in equity capital costing 13.2% for the typical company in the stock market. This is the tax structure and the cost of money that is already built into current stock prices.

A 13.2% cost of equity capital is the expected pretax return that companies must deliver to investors—through a combination of dividend and price appreciation—in order to entice them to hold equities rather than bonds. Alternatively, it is the discount rate investors will apply to future equity cash flows in setting the value of companies. Put simply, when the cost of capital goes down, stock prices go up.

A reduction in the maximum capital gains rate to one-half of the tax on ordinary income, or about 20%, is now being considered by the new Republican House leadership. That would lower the cost of equity capital for corporate America from 13.2% to 12.2%. This is enough to increase the intrinsic value of the stock market by 10.4% from 533 to 589 for the S&P industrial

Better yet, the complete elimination of the capital gains rate would reduce the aftertax cost of capital to 10.2%, increase stock prices by more than 30% and inject \$755 billion in net worth back into the households and pension funds that were hit hard by rising rates last year.

But why stop there? Combine zero capital gains rate with the reversal of Clinton's 1993 hike in the top tax rate, from 31% to 42% on ordinary income. This would reduce the cost of capital still further and extend the benefits to small business owners who report profits as personal income. Reducing taxes on capital is the surest weapon I know to stimulate increased capital formation and improved productivity. Therein lies the key to raising living standards.

The collapse of the Mexican peso has created an opportunity for investors, but in Argentina, not in Mexico.

Pegged out

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

MEXICO'S is the latest economy to fall victim to the International Monetary Fund. The week before Christmas the peso lost almost 30% of its value and Mexican stocks and bonds suffered a major drubbing.

These events should not have caught FORBES readers entirely by surprise. Late last spring Sir Alan Walters and I visited Mexico City to discuss the peso. In our column "The wobbly peso," dated July 4, 1994, we warned our readers that, because of Mexico's IMF-imposed pegged exchange rate system, investors in that country were in for a wild ride. We flatly predicted: "If Mexico retains its half-baked peg, the Mexican economy will continue to disappoint." Unfortunately for investors, we were right.

Under the pegged system, the peso was linked to the U.S. dollar. The peso was allowed to trade within a tolerance band of some plus or minus 3%. The band "crawled" downward daily, allowing an annual peso depreciation of about 4% against the dollar.

To keep the peso within this band, the Mexican central bank had to manage simultaneously both the peso-dollar exchange rate and the peso money supply. This is an almost impossible balancing act, as members of Europe's Exchange Rate Mechanism (a pegged system) discovered in 1992

and 1993. Pegged systems inevitably result in contradictory policies that invite speculative attacks and exchange rate realignments.

Instead of a pseudo-fixed exchange rate, with its accompanying pseudo-monetary policy, Mexico would have been much better off with a currency board-like system, such as the one employed in Argentina. Under that setup, Argentina's peso freely trades for the U.S. dollar at an absolutely fixed 1-to-1 rate. The ratio is credibly maintained by requiring that all pesos be fully backed with dollars—just as currencies were backed by gold during the "classical" gold standard period (1880-1914).

But with pegged rates, the peg is only as good as a government's promise to maintain it, a promise that events throughout the world have shown to be lacking in credibility.

For the moment, the Mexican peso is floating freely, and where it will land, no one can tell. The government has announced that it will be allowed to float for 60 days until it finds a new level. But it is a safe bet that when the peso does settle down, Mexico will again bow to the IMF and adopt a new pegged rate.

What, then, should investors do? Mexican security prices have been pounded. But are Mexican stocks and bonds a buy now?

I fear not. Mexico, thanks to the IMF and its cheerleaders in the U.S. Treasury, has lost something that will take years to rebuild: investor confidence. Considering what has happened in recent weeks, it will be a long time before investors will again believe what the Mexican government tells them.

Consider that on Nov. 20, 1994 President-elect Ernesto Zedillo, for the third time since his election, promised to hold the peso peg; on Dec. 1, during his inaugural speech, he again made a peg pledge; and on

Dec. 9 his finance minister presented Mexico's 1995 budget to the Mexican congress and promised to defend the peg come hell or high water.

Will future policy pronouncements by government officials be taken seriously? Not likely.

Lost credibility represents only part of Mexico's woes. The country faces \$56 billion of debt coming due in 1995. This includes \$20 billion that must be rolled over in the next 100 days. Much of the debt, though denominated in pesos, is convertible to dollars at the choice of the lenders. If lenders choose to be paid in dollars and/or refuse to pony up new credits, the dwindling Mexican dollar reserves (about \$6.5 billion) and credit lines from the U.S. and Canadian governments (\$7 billion) will be overdrawn. It's no wonder that Standard & Poor's has placed Mexico on the negative credit watch. Indeed, a 1980s-like Mexican default is a possibility.

To avoid such a fate, Mexico will probably turn to the IMF and the U.S. government for additional funds. This, of course, will force the Mexicans into an even tighter embrace by the folks who assisted in engineering the current mess. It will also probably rule out the only real solution to

By submitting to the IMF, Mexico more or less assures itself more trouble down the road.

Mexico's currency problems: a currency board and a monetary unit fully backed with hard currency.

The Mexican meltdown sent all the Latin markets spiraling down as fund managers indiscriminately dumped securities throughout the region. Argentina's peso was unscathed, but its markets weren't spared. And therein lies the opportunity. In my Dec. 19, 1994 column I said that Argentinean peso T bills and bonds were irresistible buys. Well, they are even more irresistible now. And I would add Argentinean floating-rate, dollar-denominated Brady Bonds to that list. Argentina is not Mexico. ■

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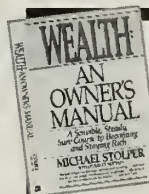
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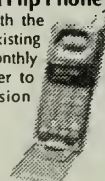
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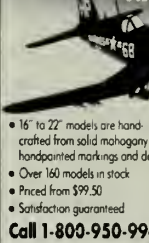
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The bull and bear fund

By John H. Christy and Shlomo Z. Reifman

WE DO IT every year: Ask a bunch of analysts to pick just one stock for the new year. Last year's contestants (*FORBES*, Jan. 3, 1994) fared moderately well in a sideways market. Our 12 bulls, asked to pick one stock to own in 1994, lost an average 0.2%, edging out the market's -1.9% return.

But it was a year for bears, not for bulls. Our five bears shone. Their chosen short-sale candidates were down an average 31%.

The shorts were helped by one bull's-eye. Embrace Systems, a mold-plastics firm panned by Stephen Carlson of Aspen Capital Group, went bankrupt.

Unfortunately for the bulls, they, too, had a stock that became worthless: Elizabeth Tran of Prudential Asia Fund Management picked KYC Machine Industry. The Japanese manufacturer of construction equipment didn't go up. It went broke. In a reminder of how the stock market humbles all of us, analyst Tran was our first-place *winner* the year before.

Last year's best buy came from Kurt Kammerer of Advest, who recommended physical therapy provider Advantage Health. It gained 135%.

For a summary of 1994's 12 bulls and 5 bears, see the table on page 123.

And now for 1995. Kammerer and other winners were invited back to try their luck again.

Kammerer is sticking with the rehabilitation theme. He picks Professional Sports Care Management, a company founded by the current team physician of the New York Giants.

Alison Bisno of Stephens Inc. finished a strong second by picking Blount last year. Her new choice: Citation Corp., which owns metal

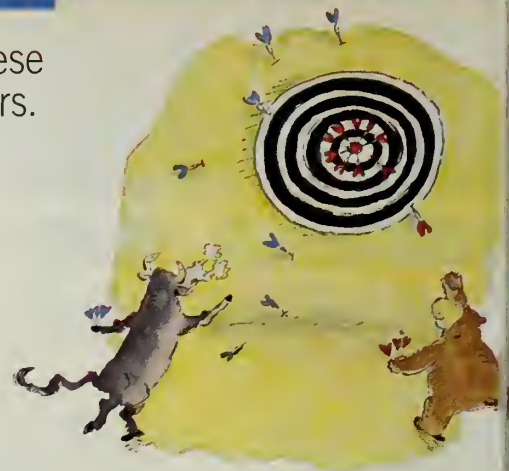
foundries and sells at less than 12 times her 1995 earnings projection of \$1.15 a share.

Now in his seventh consecutive appearance is Van Brady of Presidio Management. His 1994 pick, Systems & Computer Technology, gained 23%. This year Brady's going with

Cambridge Technology Partners, computer consulting firm.

Another returning bull, Theodore Rosenberg of Burney Co., is also betting on computers. His choice is MicroAge, a Tempe, Ariz.-based franchisor of computer stores.

Lesla Sroufe of Seattle's Ragen



The starting line

Name/affiliation	Stock	Ticker symbol	Recent price
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The bulls say buy these stocks...

Alison Bisno/Stephens	Citation Corp	CAST	12¾
Van Brady/Presidio Management	Cambridge Tech Partners	CATP	20½
Leopoldo Guzman/Guzman & Co	Grupo Televisa*	TV	32¾
Kurt Kammerer/Advest	Professional Sports Care Mgmt	PSCM	12¼
Michael Kassen/Neuberger & Berman	Progressive Corp	PGR	35¾
Madelynn Matlock/Bartlett & Co	Istituto Mobiliare*	IMI	18½
Theodore Rosenberg/Burney Co	MicroAge	MICA	11¾
David Saks/Gruntal & Co	Ivax	IVX	17¾
Brett Sneed/Bull & Bear Group	System Software Associates	SSAX	14¾
Lesla Sroufe/Ragen MacKenzie	Washington Energy	WEG	13½
Paul Stephens/Robertson Stephens Contrarian Fund	McMoRan Oil & Gas	MOXY	2¾
Gregory Weiss/Investment Quality Trends	Chemed	CHE	33¾

... the bears say short these stocks

William Lambos/BIG newsletter	Epitope	EPT	24¾
Robert Lang/Lang Asset Management	Hilton Hotels	HLT	67¾
William Lyons/Short On Value	Nextel Communications	CALL	15¾
Evan Sturza/Sturza's Medical Investment Letter	Glaxo*	GLX	20¾
Ranjan Tandon/Libra Advisors	IP Timberlands, LP	IPT	23½

Closing prices as of Dec. 23, 1994. *ADR.

Once again, 17 experts are placing all their hypothetical chips on one stock—either to buy or to sell short—for the coming year.

The finish line

Name/affiliation	Stock	% change
The bulls lost . . .		
Kurt Kammerer/Advest	Advantage Health	135%
Alison Bisno/Stephens	Blount	84
Lesla Sroufe/Ragen MacKenzie	Alberto-Culver	21
Van Brady/Presidio Management	Systems & Computer Technology	23
Theodore Rosenberg/Burney Co	Boeing	20
Jerry Herman/Kemper Securities	Lesco	-1
Carlene Murphy/Strong Common Stock Fund	Dovatron International	-2
Christine Munn/Munn, Bernhard & Associates	AmeriCredit	-18
Mark Keller/AG Edwards	Esco Electronics	-42
Justin Mazzon/American Blue Chip Investment Management	Woolworth	-40
Wayne Burgan/Analytic Capital Management	Castle Capital	-83
Elizabeth Tran/Prudential Asia Fund Management	KYC Machine Industry	-100
. . . the bears won		
Stephen Carlson/Aspen Capital Group	Embrace Systems	-100
Evan Sturza/Sturza's Medical Investment Letter	Aphton	-45
Robert Lang/Lang Asset Management	Deere & Co	-9
David Hines/Hines Management	Columbia Gas System	-1
Robert Stovall/Stovall/Twenty-First Advisers	Charles Schwab	0.4

Performance from Dec. 10, 1993 through Dec. 15, 1994.

Solace for our bullish analysts:

Although they lost money,

they edged out the overall market last year.

The bear's short-sale candidates were down a handsome 31%.

MacKenzie is back with Washington Energy, a regulated natural gas utility. Doesn't sound like a swinger, but it should hold up if interest rates decline. The company was awarded a 4.9% rate boost last May, and its customer base is growing 5% annually, twice the national average.

A bullish newcomer is David Saks, Gruntal & Co.'s pharmaceuticals analyst. His favorite for 1995 is Ivax, a Miami-based pharmaceutical firm. Its trailing earnings of \$1.06 aren't bad, but Saks rhapsodizes about the company's founder and chairman, Phillip Frost: "Qualitative faith in people sometimes transcends quantitative analysis."

Newcomer Paul Stephens, portfolio manager of the Robertson Stephens Contrarian Fund, is betting on petroleum. His favorite: McMoran Oil & Gas, a spinoff of Freeport-McMoran. "The company has a lot

of hidden assets, including the largest 3-D seismic library on the Gulf of Mexico."

Brett Sneed, senior vice president of Bull & Bear Group, a mutual fund vendor, picks System Software Associates, which sells applications for midrange computers.

Gregory Weiss of Investment Quality Trends chooses Chemed, the nation's largest supplier of janitorial services and 60% owner of Roto-Rooter. A year ago Chemed purchased Patient Care, a large New York-area provider of home health care. Another plus, says Weiss, is Chemed's 6.4% yield.

Michael Kassen of Neuberger & Berman puts his chips on Progressive Corp., which insures high-risk drivers. Kassen says Progressive was rare among insurers last year in turning a profit on underwriting. Most property/casualty insurers are in the black only by dint of investment income.

We asked two analysts to offer international buy recommendations. Leopoldo Guzman, president of Miami-based Guzman & Co., likes Mexico's Grupo Televisa, which owns television stations and programming operations throughout Latin America. It's also the dominant Spanish-language TV programming group in the U.S. The peso devaluation just made the stock a lot cheaper.

Madelynn Matlock, director of international investment at Cincinnati's Bartlett & Co., offers Italian bank Istituto Mobiliare, off 30% (in dollar terms) from its peak in April 1994.

If you think the bear side is the place to be in 1995, as in 1994, have we got some picks for you!

We couldn't reach 1994 genius Stephen Carlson. We replaced him with William Lyons, publisher of the Atlanta-based *Short on Value* newsletter. Lyons shorts Nextel Communications. (For a contrary view on Nextel, see p. 47.)

Robert Lang, who manages money from Atlanta, says he'd short Hilton Hotels, overpriced at 25 times 1995 estimated earnings.

Evan Sturza of *Sturza's Medical Investment Letter* last year told us to short Aphton, which fell nearly 45%. Now he's bearish on Glaxo, the British drug giant. He says the sales of new drugs in Glaxo's pipeline won't offset the loss from the patent expiration on its popular ulcer medication, Zantac, which rang up sales of \$3.7 billion for the year ended June 1994.

Newcomer William Lambos also tracks biotechnology stocks as editor of the *BIG* newsletter in New York. He's short Epitope, a biotech company that makes OraSure, an oral test for HIV. OraSure just got federal approval, but only as a doctor-supervised test. Disillusioned investors who hoped for a home-detection item will soon dump the stock, says Lambos.

Ranjan Tandon, president of Libra Advisors, a New York hedge fund, is sour on IP Timberlands, L.P., a wasting asset controlled by International Paper. "Even if timber prices stay stable, I think the stock is overpriced," says Tandon. "And I expect timber prices to fall." It had better fall briskly: As a short-seller, you would have to cover the company's \$2.88 annual dividend.

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"The more things change . . ."

70 years ago in FORBES

(FROM THE ISSUE OF JAN. 15, 1925)



Sculptor Gutzon Borglum (third from left) at work on head of General Robert E. Lee at Stone Mountain, Ga. memorial.

"Rates of pay throughout the U.S. for 1924 were the highest in history, according to the Department of Labor. The average hourly rate was 128% greater than in 1913, 154.2% greater than in 1907, and 8.3% greater than in 1923."

"William W. Wood's resignation as head of the American Woolen Co. marks the passing of a typical example of the old school of autocratic, domineering giants who found themselves at loggerheads with modern industrial ways and thought. . . . Their attitude towards labor continued autocratic, not diplomatic. In their eyes it was labor's duty to do exactly as told and not to reason why. They issued decrees; it was for their 'help' to obey."

60 years ago

(FROM THE ISSUE OF JAN. 15, 1935)

"America's industrial leadership of the world did not become pronounced until she achieved overwhelming automotive leadership."



Packard introduced its new, smaller 120" model straight-eight in early 1935.

This nation owes more of its progress during the last two decades to automotive giants than to any other one group."

"Including 3-cent postage, approximately \$700 million in emergency taxes expire with the current fiscal year. All will be extended, some increased. The scramble for new revenues is hectic."

50 years ago

(FROM THE ISSUE OF JAN. 15, 1945)

"Television, though scarcely out of its infancy, now promises to become a tremendous medium for education, entertainment and even employment in postwar America. And it has already been perfected to a point where it's commercially practical. When the Federal Communications Commission fixes the rules for transmission standards, [set] manufacturers will be safe to proceed. . . ."



"Televised college courses may soon be a reality," said FORBES 1945 caption.

"From Mississippi to Virginia, from Alabama to Florida, the word is beginning to spread that the black lifeblood of modern civilization, oil, may exist deep under Southern cotton, rice, peanut and tobacco crops."

25 years ago

(FROM THE ISSUE OF JAN. 15, 1970)

"The railroads of America may be beset by problems, but Pullman-Standard Vice President Elwyn T. Ahnquist expects them to take delivery of 70,000 new freight cars in 1970. This would be well above the 65,000 cars calculated for 1969 by the American Railway Car Institute—which, in turn, was 16% above the 56,232 cars produced in 1968."



Moondump: The Apollo lunar missions of the late 1960s left their trash behind.

"'Hell, no, we won't go!' is being heard often today from business executives who refuse transfers to big, expensive cities. . . . Employee reluctance is growing despite various inducements, such as relocation allowances and, by several companies, special salary increases. New York was a major problem destination."

10 years ago

(FROM THE ISSUE OF JAN. 14, 1985)

"How much leisure do we have today? Not as much as you might think. Leisure time has actually been shrinking and the workweek lengthening since the early Seventies, says a study by Louis Harris for Philip Morris. The average American had only 18.1 hours per week of real leisure time last year. That compares with 24.3 hours in 1975 and 19.2 hours in 1980."

"'Too much of a good thing' was the title of the opening essay in FORBES' 22nd Annual Report on American Industry in January 1970. It chronicled the great economic sea change that occurred as Americans began to realize that inflation, rather than depression and unemployment, too much money rather than too little, was the overarching economic problem that lay ahead."

"Last September Todd Conover, Comptroller of the Currency, told the House Banking Committee that the federal government wouldn't allow any of the nation's 11 largest banks to fail. For smaller banks, of course, the story was different: When Conover spoke, 59 of them had already gone under in 1984. . . ."

Civil Service has itself become such a spoils system that a fed-to-the-teeth-with-bureaucracy public threatens to support a return to the old one.

Once in a civil service job, one needs only to live to rise. It's near impossible to be fired for incompetence, indifference, woeful attendance, insubordination, or even being caught red-handed in the cookie jar. . .

When Congress passed the civil service act slightly more than 100 years ago after a disappointed job-seeker assassinated President Garfield, it surely didn't have in mind that its baby would turn into such an uneivil monster.

—MALCOLM FORBES

A Text . . .

Take my yoke upon you, and learn of me; for I am meek and lowly in heart; and ye shall find rest unto your souls. For my yoke is easy, and my burden is light.

—MATTHEW 11:29-30

Sent in by Dan Duggan, Tyler, Tex.

What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

So you wish to conquer in the Olympic Games? But first mark the conditions and the consequences. You will have to put yourself under discipline; to eat by the rule, to avoid cakes and sweetmeats; to take exercise at the appointed hour whether you like it or not, in cold and heat; to abstain from cold drinks and wine at your will; in a word, to give yourself over to the trainer as to a physician.

—EPICTETUS

Find something you love to do and you'll never have to work a day in your life.

—HARVEY MACKAY

Official warnings pummel us
With printed cautions we're to heed:
This may seem apt and yet it's sad
When maybe half of us can't read.

—ART BUCK

Don't argue with the truth.

—PAUL A. POTTER

I think most of the people involved in any art always secretly wonder whether they are there because they're good or there because they're lucky.

—KATHARINE HEPBURN

There is nothing wrong with having nothing to say—unless you insist on saying it.

—ANONYMOUS

I sit on a man's back, choking him and making him carry me, and yet assure others that I am very sorry for him and wish to ease his lot by all possible means—except by getting off his back.

—LEO TOLSTOY

Pleasure is Nature's test, her sign of approval. When man is happy, he is in harmony with himself and with his environment.

—OSCAR WILDE

It is not abstinence from pleasures that is best, but mastery over them without being worsted.

—ARISTIPPUS

Although wealth may not bring happiness, the immediate prospect of it provides a wonderfully close imitation.

—PATRICK O'BRIAN

We are all born equal—equally helpless and equally indebted to others for whatever our survival turns out to be worth.

—CULLEN HIGHTOWER

People seem to enjoy things more when they know a lot of other people have been left out on the pleasure.

—RUSSELL BAKER

He's a self-made man,
Certainly no faker.
His only fault is
He worships his maker.

—CECIL BAXTER

I've learned that you can't hide a piece of broccoli in a glass of milk.

—7-YEAR-OLD'S DISCOVERY

More than 9,000 "Thoughts," indexed by author and subject, are available in a three-volume boxed set at \$69.50 (\$27.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: \$27.50. Send check and order to Forbes Books, P.O. Box 11234, Des Moines, IA 50340. Add sales tax on orders in New York State and other states where applicable. For faster service call 1-800-234-4553 and charge to your credit card.

ating the investment letters. Which are the best?

Overhyping the Internet: Where's the beef?

ORBES

1995 JANUARY 30

January 30, 1995

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Forbes

OIL! GUNS!

GREED!

Was Chase Manhattan
ripped off by
arms traffickers?



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Investments Are The Terrain.
We Are The Map.



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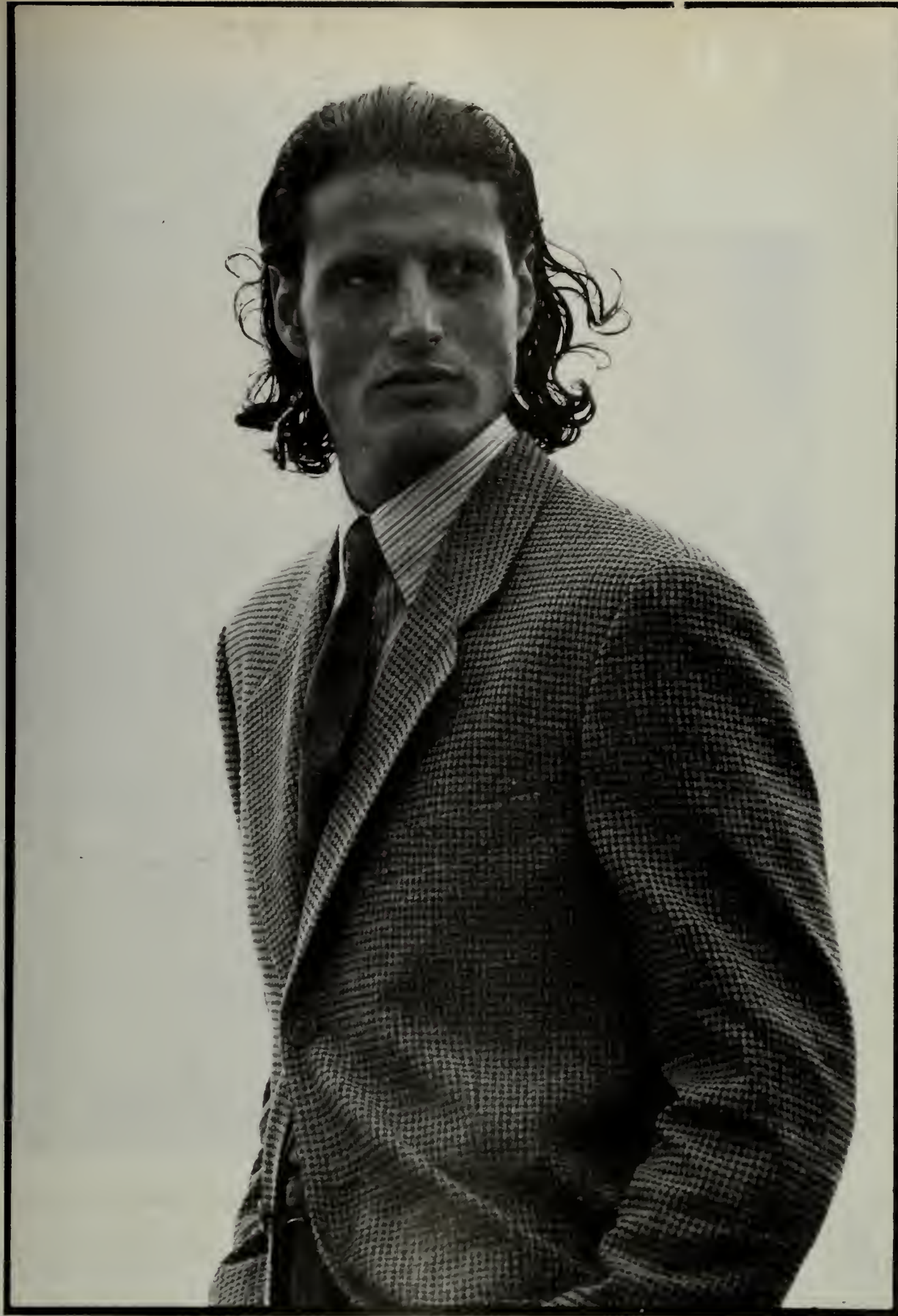
This approach to investing has helped TCW travel from \$8 million to over \$50 billion under management in just 22 years. If you have assets of \$5 million or more and you would like more information on TCW, please contact Jeffrey V. Peterson, Managing Director, at (213) 244-0500

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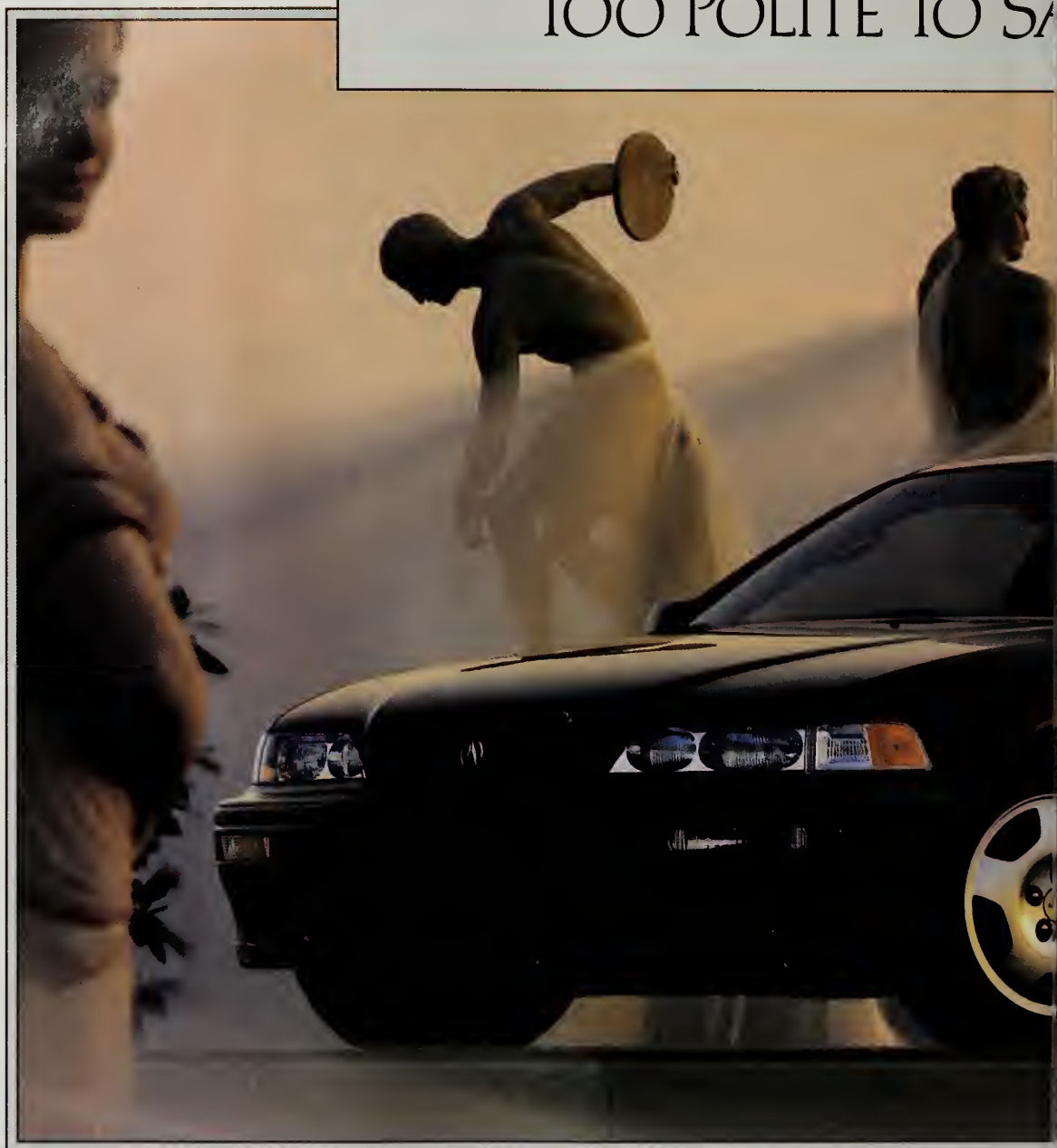


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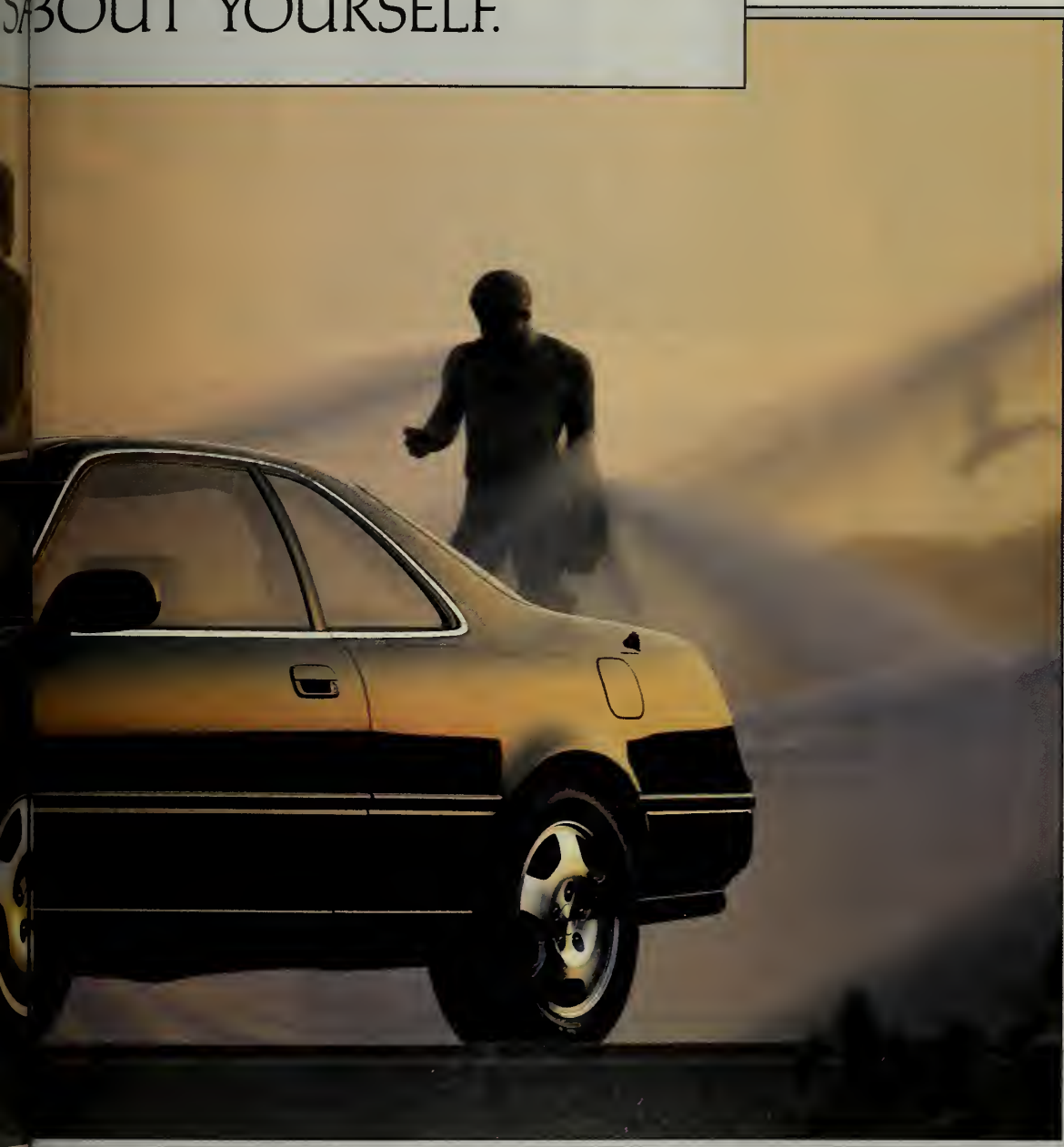
IT SILENTLY SCREAMS
TOO POLITE TO SAY



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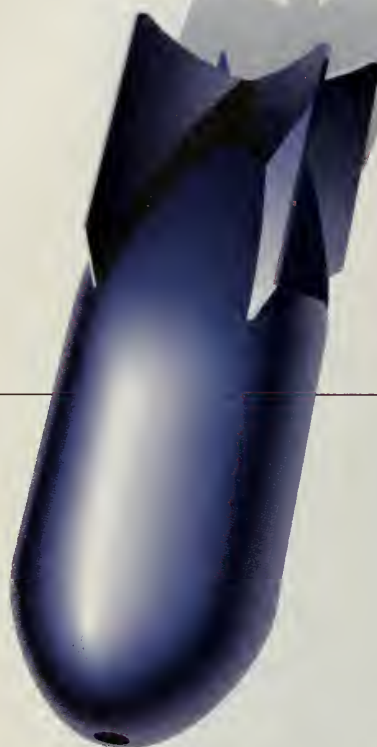
of your own personality traits. Some of which you
may not even have known you possessed.

SOME THINGS ARE WORTH THE PRICE.



ACURA

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Skeptics, *Forbes* among them, were writing off McDonnell Douglas a few years ago. Did we get it wrong.

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Successful entrepreneurs aren't made, George Broadly says. "They're cornered." He speaks from experience. Also: Digi International revisited.

SafeCard Services

By Rita Koselka and James M. Clash
Paul Kahn very much wanted to start his own company. Instead he found plenty of challenge—and headaches—in running somebody else's.

Faces Behind The Figures

Robert Price, Price Communications; Richard Weekley, Texans for Lawsuit Reform; Richard Gordon, Subic Bay.

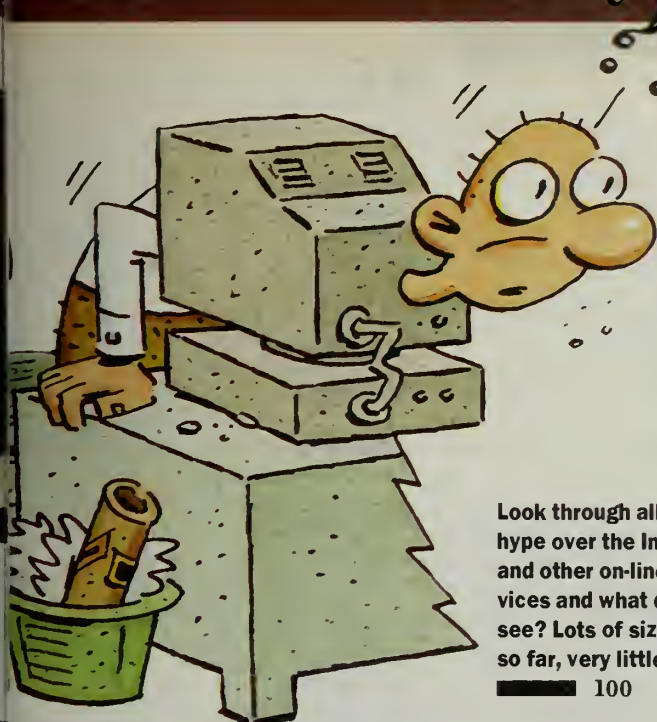
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"There's Lots Of Opportunity"

By Graham Button, Christopher Palmeri and Kerry A. Dolan
How the richest man in Mexico copes with the peso crisis.

Real Fish Don't Eat Pellets

By Nina Munk
Americans could dominate the market for farm-raised salmon, but the U.S. has shot itself in the foot and let Chile walk away with a booming industry.



Look through all the hype over the Internet and other on-line services and what do you see? Lots of sizzle but, so far, very little steak.

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January 30, 1995
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Number 3

FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office. Subscription rate: \$57 a year.

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Famous Grand Cru Bordeaux \$100 Lower in Price Due to Air Fare Wars

From our correspondent:

BORDEAUX, Nov. 30 – The intense competition in the airline industry has brought about changes in the service levels being offered to passengers. Some European airline companies have eliminated "First Class" in favor of the more economical (for customers) "Business Class."

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Shut up—or else

THE WRONGDOING FORBES WRITES ABOUT is usually of the white-collar sort: stock swindles, inept managements, errors in judgment. Our Jim Norman found himself in a darker and more violent environment while researching this issue's cover story. He's not the paranoid sort, but Jim admits to a certain nervousness when he recalls the fate of a couple of other journalists who probed Carlos Cardoen, the notorious Chilean arms dealer who plays a prominent part in this tale of bank fraud, oil trading and bombs. "Jonathan Moyle, a writer for a British aerospace magazine, was found hanged from a shoulder-high clothes rack in his Santiago hotel room while gathering information on Cardoen in 1990," Norman recalls. "A year later another journalist, free-lancer Danny Casolaro, who was working on a book about arms trading, was found dead in a motel room near Washington."



James R. Norman

Diane Holt

In this light, Jim tips his hat to John Pastis, now helping run a small business in Mississippi but once a drug informer and oil trader. Pastis was one of his best sources on this story. "Soon after he agreed to talk to me, Pastis says he got an anonymous phone threat to shut up," Norman says. "Luckily, he shrugged it off."

"Oilman, trader, banker, spy" begins on page 84.

Thin skins on the Internet

WHILE REPORTING HIS STORY ON THE INTERNET—"Where's the money?"—Associate Editor David Churbuck trolled for disillusioned users in the alt.internet.services Usenet discussion group. Big mistake. A lot of the people out there had a vested interest because they are in the business of selling connections to the Net. These and their allies scorched David with a round of E-mail flames, as did a number of others for whom the Internet can do no wrong. (Go ahead, dbuck@world.std.com.) "Journalists shouldn't criticize anything beloved of computer nerds unless they have very thick skins," he says.

They should know, however, that David's one of them. He's been on-line since 1983. He first reported on the commercialization of the Internet for FORBES in the July 8, 1991 issue. That story ended with: "The potential value in a universal computer network is evident. What remains to be seen is whether Internet can get its act together." Has it? In technology, yes. As a marketing tool? Turn to page 100.



David Churbuck

James W. Michaels
Editor

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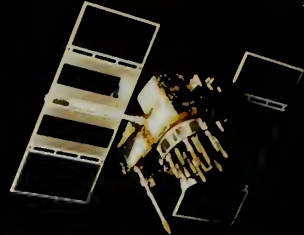
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Phillips-Van Heusen's big wrinkle

FORBES gave Lawrence Phillips, great-grandson of Phillips-Van Heusen founder Moses Phillips, a firm pat on the back three years ago (*Oct. 14, 1991*) for showing the vision and risk tolerance so lacking in most family dynasties. At the time, Phillips, then 64, was cranking up private-label sales and setting up an outlet store chain to counter the growing leverage of his ever-larger department store clients.

That strategy hasn't looked too smart over the past year as consumers, tepid toward apparel, have stayed away from outlet malls. To make matters worse, PVH launched a new line of wrinkle-free dress shirts, and startup costs hammered its bottom line.

Result: Earnings at the \$1.2 billion (sales) apparel and shoe maker will fall an estimated 31%, to about \$30 million, or \$1.10 per share, in the year through January. PVH's troubles triggered a 60% drop last year in its stock, which recently traded at 16½.

A rebound is unlikely until apparel sales pick up, possibly late this year. When they do, Phillips' willingness to take it on the chin in 1994 should pay off. Under his successor, Chief Executive Bruce Klatsky, 46, PVH has expanded to over 800 outlet stores. It also claims the nation's bestselling

labels for dress shirts (Van Heusen designer dress shirts (Geoffrey Beier and casual shoes (Bass). PVH is broadening those lines and bidding for bankrupt Crystal Brands' Izod and Gant labels. Says Klatsky: "We the low-cost producer, we develop and deliver product faster than any one and can easily layer on an acquisition of some size."

Mr. Smith goes back to square one

"IN OUR INDUSTRY you're either growing or you're dying," Smith's Food & Drug Centers Executive Vice President Robert Bolinder told FORBES three years ago (*Feb. 17, 1992*). We praised press-shy Chairman Jeffrey Smith and his young management team at the time for their can-do spirit and aggressive push into California.

Smith's has looked pretty sickly ever since. The \$2.8 billion (sales) S. Lake City-based company's net income fell 15% last year, to \$45 million, and another 4% through September. Its stock, 37 at the time of our story, recently traded at 24¾.

What went wrong? Smith's has had a tough time breaking even at cavernous 75,000-square-foot California stores amid recession. Elsewhere in the Southwest, it's been squeezed by price wars.

But management hasn't wilted. It's improving productivity in southern California and consolidating divisions. It is also downsizing new stores, which will still carry over 50,000 items. This should help earnings rise 20% this year, to around \$ per share, says Piper Jaffray analyst Brooks O'Neil. —MARC BALLCO

When bad news is good business

BAD NEWS is good business for Bill O'Gara, and business is booming. O'Gara, 37, heads O'Gara-Hess & Eisenhardt, a Fairfield, Ohio firm he set up with brother Thomas, 44, to armor-plate cars. Since we profiled the firm (*Feb. 15, 1993*), sales and pretax profits have roughly doubled to around \$40 million and \$2.5 million, respectively.

Where's the new demand coming



A MISSISSIPPI TRAFFIC JAM



"One of the things that bothered me where I used to live was the congestion. There were a lot of people living and working in a small area, so roads were crowded, there were many accidents, and getting to work was very frustrating. Fortunately, I relocated to Mississippi. Now I live twelve minutes from my office, and I consider a traffic jam being fourth in line at a red light. It's a nice change. There's a lot to be said about quality of life. You can find that quality here."

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-Greg Smith, Chief Investment Strategist, Prudential Securities

Greg Smith is more than our Chief Investment Strategist. His influence is deeply felt in the investment community. An *Institutional Investor* magazine poll has ranked him the number one market strategist since 1991. He has also ranked among the top three strategists since 1983. Greg believes there are still more than enough investment opportunities today. They're simply in different places. As the new year approaches, we're giving you his thinking about where to invest. And why.

"I expect the equity market to get off to a rocky start in 1995." While the Federal Reserve is trying to hold down inflation by raising interest rates, the government's current position is that higher rates come at the price of new jobs. This conflict between the Fed and Washington will continue to create significant uncertainty in the stock and bond markets in the coming 4 - 6 months.

"The outlook in the international market is generally more optimistic." Democratic government and free enterprise are becoming the norm throughout the world. Despite the drama unfolding in Mexico, we are still seeing a long-term strengthening of economies in virtually all of Latin America and along the Pacific Rim. With it, comes demand for roads, communication systems, power generation and rapidly expanding industrial capacity.

"You have a way to tap into these opportunities." Based on Greg's thinking, we've developed an investment strategy called Crossroads to help you focus on this growth potential. Right now, we are advising people to seek out

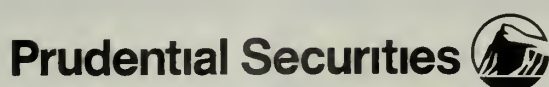
investments in market sectors that are benefiting from this world-wide growth. Specifically, Greg believes there are opportunities in basic industrials, capital equipment, energy and technology.

"We now know what to invest in. Crossroads tells you where." The United States economy is clearly in a growth phase. However, other parts of the world are moving faster. And with their accelerated growth, comes the opportunity for investors to achieve more significant returns over the long term.

For people who want to tap into the potential of this faster growth, but in a domestic investment, Greg Smith advises us to consider the lean, competitive multinational American companies that are helping to build these dynamic economies. Since these companies usually do business in many markets, with multiple products and services, they provide some of the advantages of diversification.

"Our analysts have identified many companies that meet our criteria." The kind of companies we suggest have already passed through the crucible of retrenchment. They're now more competitive on price, quality and service than in recent decades. For example, some of the companies currently among our Crossroads stock recommendations which may be suitable for you are: Caterpillar (CAT) 55 5/8; Cypress Semiconductor (CY) 21 3/4*; Kerr-McGee (KMG) 45 7/8; Boeing Co. (BA) 46 3/4; Asarco Inc. (AR) 28 1/2. We believe they are worth considering.

Further information is available about these stocks and other opportunities. Please call: 1-800-654-5454.





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removing a car at O'Gara-Hess & Eisenhardt
errorism in U.S., abroad, doubled sales.

om? O'Gara's is a rare outfit with
rowing defense contracts. Humvees
nd other military vehicles with its ar-
nor have rumbled into Haiti, Soma-
a and other flash points. Two other
ot markets: Mexico, where O'Gara
ays, "It's easier to kidnap wealthy peo-
le than knock over banks"; and doc-
ors at U.S. abortion clinics, who could
count for as much as a third of
omestic sales this year.

Rhino charges on

HINO RECORDS had milked the
arket for repackaged Sixties rock 'n'
oll pretty dry when FORBES first
rote about the highly successful
iche firm six years ago (*May 1,*
989). Our concern: that founders
ichard Foos and Harold Bronson
ere on the verge of letting ambition
nd love of music lure them into
sky new markets.

They did just that, but Rhino has
ontinued to prosper. Sales have since
iplied to about \$65 million, and
he private, Los Angeles-based com-
any has remained profitable
roughout its 17-year history.

Where has the growth come
om? Some of it from nostalgia music
fferings of other decades dating
ack to the Twenties. In 1991 Rhino
unched its successful children's dis-
sion, Kid Rhino. Two years later, it
roduced its Forward label with
op acts like Todd Rundgren and
RBQ. Then there's video. Its 300
cles range from music to horror to
esterns.

Rhino's secret? "We're just typi-
l baby boomers," says Foos. "We
at out the kind of records that we
ould want to own."

—MARLA MATZER

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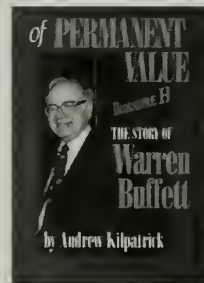
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Jamail wins again



Texas lawyer Joe Jamail
Pelf from Elf.

JOSEPH JAMAIL in 1985 talked a Houston jury into assessing \$11 billion in damages against Texaco on behalf of his client, Pennzoil. Jamail, whose fee was estimated at \$345 million, has now stung another big oil company, France's Elf Aquitaine. He sued on behalf of parents of 13 babies born with deformities, sometimes fatal, allegedly caused by arsenic released into the air, soil and groundwater by a Bryan, Tex. chemical plant now owned by Elf.

According to Elf's lead defense attorney, Knox Nunnally, no local, state or federal agency or court has ever determined that waste from the plant harmed anyone. But Elf, perhaps remembering that Texaco declared bankruptcy after losing to Jamail, caved in. The court has sealed the settlement, but the buzz in Houston (denied by Elf) is that it was for \$125 million, or roughly \$10 million per baby. Jamail's cut: close to \$30 million. "I'm not saying business shouldn't make a profit," says Jamail, "but goddammit, they can do it safely." —TONI MACK

Flying high

ROBERT LUTZ, president of Chrysler, paid \$200,000 for a new toy—a Czech air force trainer jet. A bargain, says Lutz; a U.S. trainer jet, if you could find one, would cost over \$1 million. Plus, the Czech plane, now being fitted with new avionics, consumes a lot less fuel.

What will the 62-year-old chief operating officer do with it? Fly it. Lutz is an ex-Marine Corps fighter pilot who sometimes flies his own helicopter to work. For "familiarization" training on the Czech craft, he's turned to an ex-Soviet air force major employed by a small aircraft dealer in Gadsden, Ala. —JERRY FLINT

From Kerkorian to Kalitta

IN SEPTEMBER billionaire Kirk Kerkorian put MGM Grand Air back into the commercial passenger business, hoping for high rollers. He spent millions upgrading the six planes and promoting luxury Golden Triangle service from New York to Las Vegas and Los Angeles. Round-trip New York-Los Angeles tickets: \$2,800.

Now he's thrown in the towel after MGM Grand Air racked up about \$6 million in 1994 operating losses. He sold the airline for an estimated \$15 million to Conrad Kalitta, 56, who owns American International Airways, a 100-plane cargo and passenger charter firm based in Ypsilanti, Mich. Kalitta will use the airline's 3 DC-8s for passenger charters and sell the 727s. —FRANK WOLFE

Fallen star

MANY A money star tumbled in 1994, but few fell as hard as Leon Cooperman, whose Omega Advisors started 1994 with over \$3 billion under management and ended with about \$1.8 billion. Like many, the ex-head of Goldman, Sachs Asset Management lost big early on in European and Japanese bonds, but he com-

pounded these losses with, among other things, a long position in Mexican stocks when the peso collapsed.

Omega funds ended last year down 24%. Say this for Cooperman: He's feeling his clients' pain. He's reported to have spent many recent nights working late and sleeping in a study in his office. He'll have a limited share of the profits until he makes clients whole on their 1994 losses. Word is most of his U.S. clients are sticking with him, but a large amount of his foreign money has bolted. —DYAN MACHAN and RIVA ATLA

Eclipsed?

HOLLYWOOD restaurateur Peter Morton is getting a lesson in the first three laws of real estate: location, location, location. Last year Morton moved his celebrity hangout, Morton's, catty-corner from where it had been situated for the past 15 years.

Bernard Erpicum, former maître d' at West Hollywood's Spago, took Morton's spot on Melrose and Robertson and opened Eclipse. Erpicum's partners include actor Steven Seagal and Simpson attorney Robert Shapiro. "I believe this is the magical corner," he brags. "Some nights we have 25 Rolls-Royces in front."

Local restaurant reviewers have been underwhelmed by Eclipse's oven-roasted seafood. Erpicum's fawning over celebrities can be annoying. Nevertheless, some gossip columnists say it's become the in spot for Hollywood types who believe that where you eat defines who you are.

How's Morton's doing at the new location? Peter Morton wouldn't return our calls. —DAMON DARLIN



West Hollywood eatery Eclipse
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Sacred cow

SIR: Dr. Thomas Sowell has sharply described the warts on the face of academia, but he is wrong to attribute their growth to tenure ("Tenure versus teaching," *Nov. 21, 1994*). The abolition of tenure will simply mean that there will be more untenured good teachers not being renewed.

For the past three decades the Western World has been democratizing its universities. Academia is no longer run by proven academics who have earned the right to dictate policy through a lifetime of related activities. Administrators, skilled in committee work and public relations, are aided by democratically elected popularists.

As Roy Campbell stated in a different context: They use the snaffle and the bit all right, but where's the bloody horse?

—E. MICHAEL COLES

Associate Professor

Simon Fraser University

Burnaby, British Columbia

Not her fault

SIR: Ambassador Pamela Harriman is not and never was a trustee of the inter vivos trusts created by [W. Averell] Harriman for his children and grandchildren ("Amiable dunces," *Jan. 2*). She did not pick the adviser, William Rich III. He was picked by Governor Harriman. Ambassador Harriman was as much a victim of these investments as the governor's children and grandchildren.

—LLOYD N. CUTLER

*Wilmer, Cutler & Pickering
Washington, D.C.*

Pamela Harriman, Lloyd Cutler's client, was, however, executrix of the estate and a general partner in the entities that invested in the resort hotel associated with Robert Brennan.—ED.

Corporate socialists

SIR: I hate to intrude on Peter Huber's laissez-faire hallucinations about the energy marketplace, but he either doesn't know or chose not to mention how long and how hard the fossil fuel and nuclear power industries have been sucking on the federal teat ("Windmills in the closet," *Sept.*

26, 1994). Research subsidies, defense subsidies, insurance subsidies, fuel enrichment subsidies; these industries aren't "disciplined by market competition," they're corporate socialists who have been playing the American taxpayer for a patsy for decades.

—JIM DIPESO

Kent, Wash.

The long and short of it

SIR: Re Fact & Comment (*Jan. 2*). Your comments about the shortening of the financing term of the national debt are misguided at best. No one will know the results of the current Treasury Department policy for years.

You should be congratulating President Clinton on his financial management.

—AARON A. BURCHUK

Jenkintown, Pa.

Toy ripoff

SIR: Toys need not be old to appreciate substantially in value ("O.J. Simpson dolls are hot," *Oct. 10, 1994*). Kenner Starting Lineup hockey figures were introduced in late 1993 and distributed through mass retailers like Target, Kmart and Toys "R" Us. When I tried to buy them last fall for my son, 9, clerks were rude and deceitful. Some confided these toys never reach the shelves as managers and clerks gobble them up for resale. Most are "redis-tributed" through ruthless propri-



G.I. Joe collectibles

Something about a man in uniform.

etors of sports card stores. One figure from the original set is now selling for \$150—20 times its original price. But perhaps the lesson learned by my son and me is infinitely more valuable than a \$7 piece of plastic.

—HAROLD G. AUGUSTINE

Grosse Pointe, Mich.

Put it in perspective

SIR: Re "I'm friendly with all" (*Dec. 5, 1994*). The remark about the destruction of the Arab village of Deir Yassin in a single act overlooks that this was an isolated incident and in no way compared to the atrocities in the hundreds committed by Palestinian Arabs during the period from the beginning of the British mandate to the assault by six invading Arab armies on the newly declared state of Israel. Militarily Deir Yassin proved to be one of the few weak links in the Arab encirclement of Jewish Jerusalem during the 1948 war, allowing the resupply of the starving Jewish population.

—NELSON MARANS

Silver Spring, Md.

Full disclosure

SIR: Those of us who have been diagnosed with prostate cancer and traveled the harrowing road to recovery are acutely aware of the need to become fully informed about alternative therapies such as interstitial seed implantation, combination hormonal therapy and cryosurgery ("Making up your own mind," *Nov. 21, 1994*).

Understandably, doctors usually recommend their own specialty's preferred treatment: Surgeons recommend surgery, and radiotherapists recommend radiation. The issue, however, is not the recommendation of a particular treatment but full disclosure of the options and risks to the patient. As women should have the right to choose between radical mastectomy and lumpectomy, so should men have the right to choose between radical prostatectomy and one of the alternative therapies now available.

Unfortunately, there appears to be no enforceable legislative solution to this medical dilemma.

—DONALD F. KALTENBACH

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



ORIGINS OF MEXICO'S MADNESS

MEXICO IS A TRAGIC, textbook case of what ails much of modern economic theory. The country's crisis is an ongoing testament to the peculiar power of certain idiotic ideas that triumph again and again over actual experience.

■ **Devaluation.** The IMF and most economists still believe that cheapening a country's money is sound policy because it makes imports more expensive, thus inducing the locals to keep their money home, and makes exports cheaper, thereby stimulating export-led growth. That's the theory. Debasers routinely play down or ignore the adverse inflationary and higher interest rate impact. The blunt truth is: Countries burdened by funny money grow more slowly than those that are not. Sound money helps countries expand. Look at Japan and Germany. Honest devaluationists know full well that their policy is a backdoor way of reducing people's wages. Their zero-sum mentality equates rising incomes with lessening international competitiveness. They don't realize that, as a country develops, it becomes more proficient in industries and services that require more and more skilled workers who are motivated by the prospect of a better standard of living.

■ **Trade imbalance.** There is no connection between a trade surplus or deficit and a country's economic health and wealth. Mexico's merchandise deficit is the natural result of a rapidly developing nation. The U.S. routinely had trade deficits for its first 100 years. Japan had shortfalls from the end of World War II to the early 1960s—and was growing at 10% a year. South Korea had a similar experience in the 1960s and 1970s, as did Thailand, Malaysia and other states in more recent times. Capital inflows are

even more important for an expanding economy than trade numbers, which are not very enlightening. For example, a U.S.-owned facility in Malaysia sells a widget to Japan, yet that sale does not show up in our trade data.

■ **Export-led prosperity.** This theory holds that the best path to development is through concentrating on promoting exports. In an increasingly global economy, countries will obviously trade more and more with one another. But many states have gone to the extreme of retarding internal development and lavishing easy credit, tax incentives and other subsidies on businesses that sell overseas. The idea that capital and wealth should also be generated internally is alien to these manic export advocates. In an open market, a sale of a product or service to a fellow citizen is just as valid and valuable as a sale to a foreigner. Mexico's large population could easily create numerous, profitable markets for domestic entrepreneurs. Any gains on exports will be no match for growth lost by Mexico's suppression of internal economic activity. Living standards will be ratcheted down even more.

■ **Price controls.** The IMF and other experts endorse Mexico's variant of an approach that has never worked in recorded history. Mexico's wage and profit "restraints" will mean shortages, less (and more expensive) capital, more bankruptcies and, eventually, more political unrest.

■ **Taxes.** Mexico will be raising them in the name of balancing its budget, not recognizing that such levies inhibit economic growth. Again, experience is ignored. The U.S.' recovery from the 1990-91 recession is its slowest since WWII because of the Bush and Clinton tax increases.



Stanley Fischer, IMF's acting managing director: Still dispensing toxic advice.

IN CONTRAST, LOOK AT MALAYSIA

MALAYSIA HAS one of the fastest-growing economies in the world, thanks to free-market policies. The country has expanded 8% annually for the past eight years. It is becoming a believer in the efficacy of the Laffer Curve, which postulates that lower tax rates can increase tax receipts. Malaysia is cutting individual and corporate taxes as well as polishing or reducing tariffs on over 2,000 import items. Conventional wisdom held that these reductions would cost the government money. Now the government is

concluding that revenues will be going up instead of down.

Contrary to Democratic myth, the Reagan income tax cuts had a similar impact here. Average rates were cut by a third. The top rate was knocked down from 70% to 28%. This stimulated our longest peacetime expansion. Federal income tax collections went from \$298 billion in 1982 to \$467 billion in 1990. The proportion received from the top income earners leapt from 19% to 26%. The budget deficits resulted from our military buildup—which won us

the 40-year Cold War—and from a Congress that refused to entertain serious ideas of curbing domestic spending.

With a new Congress and a new mood among voters,

tax reductions will combine with serious spending restraints to beget a smaller, richer government and, more important, a truly vibrant economy.

MORALLY RIGHT "NO"

PRESIDENT CLINTON has wisely ruled out a proposal for using federal money to conceive human embryos in laboratories for the specific purpose of subjecting them to medical experiments. A panel advising the National Institutes of Health had made the recommendation. The President rightly observed, "The subject raises profound

ethical and moral questions as well as issues concerning the appropriate allocation of federal funds."

While the purposes of such research are noble—gaining knowledge about infertility, birth defects and other disorders—the means—creating human life with the express intent to destroy it—are morally repulsive.

CHALLENGING PARTY LINES

IN 1983 two Australian doctors, Barry Marshall and J. Robin Warren, suggested that most ulcers are caused by a certain stomach bacterium rather than by stress or spicy foods. For years their findings were treated by the world's medical establishments with contumely and scorn. Now, lo and behold, other researchers have confirmed that the Aussies were right on.

This amazing story underscores a highly relevant lesson: Major discoveries and technological advances often come from outsiders, from pioneers not part of the "mainstream," rather than from established entities or

"eminent" experts. Examples are numerous—mainframe computer manufacturers didn't develop the personal computer, traditional filmmakers didn't invent videotape and railroad companies didn't create the automobile.

This is why for medicine it's so important that the federal government not dominate the dispensation of research money and why for business it's crucial that we cut or eliminate the capital gains tax to better enable inventors and entrepreneurs to create new products and services that challenge existing, established ones. Progress is dependent on a multiplicity of individual and institutional efforts.

GREEN MODEL

MANY MAJOR ENVIRONMENTAL ORGANIZATIONS, such as the Sierra Club, have become aimless, bloated, self-perpetuating bureaucracies, more interested in raking in contributions to feed themselves than in promoting a better environment. According to a landmark report from the Center for the Study of American Business, these organizations are victims of their own mismanagement, having lost a sound sense of direction in their pursuit of growth for growth's sake.

A happy exception is the National Fish and Wildlife Foundation, which was set up in 1984 to create partnerships with government agencies, universities, individuals and corporations to solve specific environmental problems. Unlike most entities that get money from Congress (\$7.5 million this fiscal year), this foundation has been an extraordinarily focused success. Each year it raises at least \$2 for every federal dollar received and uses the money for specific projects. Among its successes, it's involved in a program with Chevrolet to support fisheries projects around the country and with Dow Chemical to protect several "priority" wetland areas. The foundation

has become a key player in resuscitating depleted fisheries off the New England coast.

The foundation doesn't so much reinvent government as it does refocus various programs for maximum impact. It has managed, for example, to get the Forest Service and the Bureau of Land Management, the nation's two largest land management agencies, to transcend jurisdictional jealousies and work together to manage nearly 2,000 miles of river habitat for native fish.

Executive Director Amos Eno, who has little patience for some of his litigation-loving peers, describes the foundation as a "MASH unit treating critical conservation cases swiftly and effectively." Eno has kept the organization lean and result-oriented. "We do not believe in compartmentalizing environmental concerns or run-

ning campaigns up flagpoles. Finding the middle ground between conservation interests and the private sector is axiomatic to workable solutions."

To survive and revive, other environmental groups would do well to adopt a down-to-earth, Eno-like approach to their own operations.



Bearable feast: Thanks to the foundation, more rivers are being made safe for native fish. One result—meatier meals for mammals.

RESTAURANTS—GO, CONSIDER, STOP

Here is the distilled wisdom of brothers Bob, Kip and Tim, and other FORBES eatery experts Jeff Cunningham and Tom Jones.

● **Sparks Steak House**—210 East 46th St. (Tel.: 687-4855). One of the best steak houses in Manhattan. Service, crisp and efficient. The wine list, first-rate.

● **Le Refuge**—166 East 82nd St. (Tel.: 861-4505). Long on charm, short on staff, food not particularly memorable.

● **Frontière**—199 Prince St. (Tel.: 387-0898). Charming French bistro in SoHo. Grilled poussin with crispy gnocchi, seasoned with mustard, lemon and rosemary, and medallions of lamb with black pepper and mashed potatoes—both have a little zing that removes them from the conventional.

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Other Comments

Facing Facts

THE REPUBLICAN PARTY has finally accomplished a true realignment. Ross Perot contributed a great deal to the Republican victory by reminding us in 1992 that a Republican cannot run without speaking two truths America knows: that official Washington is corrupt and that the Washington establishment spends too much money. George Bush left both unsaid and invited defections that cost him the presidency.

—GROVER G. NORQUIST, president, Americans for Tax Reform, *Policy Review*

Ill-Conceived Idea

CREATING, USING and destroying human embryos [as recommended by a National Institutes of Health panel] cannot be entirely separated from the question of abortion, but one hopes that many who do not oppose legalized abortion will take a stand against this.

The panel's report acknowledges that we can [determine] when human life begins. Science leaves no choice: It begins at conception. The embryo from the very beginning, we are told, deserves "serious moral consideration," "profound respect," and "some added measure of respect beyond that accorded animal subjects." Scientists agree that from the earliest moments the embryo has the capacity to articulate itself into what everyone acknowledges is human.

Having acknowledged that human

life is at stake, the panel [must] explain why it is morally right to produce lives in order to use them for lethal experiments. After all, it is one of the most cherished maxims of our civilization that human beings are always to be treated as ends and never merely as means.

—RICHARD JOHN NEUHAUS, *Wall Street Journal*

Bill Clinton has done for liberalism what Mikhail Gorbachev did for communism—destroyed it from within, without firing a shot.

—PATRICK J. BUCHANAN, *New York Post*

Fishy Funding

DURING THE LAST 25 years the U.S. has spent [over] \$200 million on salmon restoration for New England rivers. In 1991 just 203 fish returned to the Connecticut River despite the stocking of millions and millions of smolts and fry. Returning fish have been pitifully few in view of the annual stocking of 1.25 million smolts and gigantic investments in river cleanups and passage facilities. The reason? All our stocking programs, all our habitat improvements, have been feeding fisheries in West Greenland, Canada and the Faroe Islands. Maine's 9 salmon rivers annually account for an

average of 3,600 fish! It is estimated that West Greenland harvests 4,000 fish annually of Maine origin. It is time to bring the salmon back home—AMOS S. ENO, executive director, National Fish and Wildlife Foundation

Easy to Stomach

DR. BARRY MARSHALL treated some 100 Australian ulcer patients with antibiotics and cured over 80% of them. Those results had enormous medical and financial implications. His success meant that millions of people could get rid of their ulcers with antibiotics. What's more, it meant that lifetime ulcer treatment costing thousands of dollars could become a thing of the past, that most ulcers could be cured in two weeks for less than \$300.

Now drug companies are working on new antibiotics. On the horizon exciting possibilities include a vaccine against ulcers and perhaps someday the virtual elimination of ulcers.

—DR. TIMOTHY JOHNSON, *ABC NEWS 20/20*

The Root of All Evil

MONEY IS THE BAROMETER of a society's virtue. When you see that trading is done, not by consent, but by compulsion—when you see that in order to produce, you need to obtain permission from men who produce nothing—when you see that money is flowing to those who deal, not in goods, but in favors—when you see that men get richer by graft and pull than by work, and your laws don't protect you against them, but protect them against you—when you see corruption being rewarded and honesty becoming a self-sacrifice—you may know that your society is doomed.

—AYN RAND, author (1905-1982)

The Art of Art

ARTISTS NEVER THRIVE in colonies. Ants do. What the budding artist needs is the privilege of wrestling with his problems in solitude—and now and then a piece of red meat.

—HENRY MILLER, *Big Sur and the Oranges of Hieronymus Bosch*



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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Chairman*



THE TRAGEDY OF BOSNIA

BOSNIA IS an appeasement and a humiliation for the West comparable to Hitler's string of victories in the late 1930s. The only clear winners in this tragedy that has killed nearly 200,000 people are the Serbs' two brutal dictators and Russia.

How did this happen? What should have been done, and how can other instances of aggression be deterred?

When the uneasy alliance that was Yugoslavia broke apart, Croatia, Slovenia, Bosnia-Herzegovina and Macedonia claimed independence and were admitted to the U.N. Serbia, meanwhile, embarked on its longtime goal of creating a Greater Serbia, controlling all of the former Yugoslavia. Serbia's allies, the Bosnian Serbs, joined in with their "ethnic cleansing" of Bosnia's Muslims, following Hitler's example.

The West's ultimate mistake was its failure to do anything to stop the Serbs. President Clinton compounded this error when, shortly after his inauguration, he sent Warren Christopher to Europe, not to galvanize resistance to the aggression (as President Bush had done in the Gulf) but to inquire weakly what the other countries would like to do. Naturally, none of them wanted to do very much, which sent a clear signal to the Serbs that they could pursue their aggression, unhindered.

A routine U.N. arms embargo against Bosnia was put into place, but this has not stopped Russia from supplying arms to the Serbs. For more than a year U.N. and European Union "negotiators" have continued their feeble bleatings for cease-fires and "safe areas" and have proposed various peace plans that awarded Serbia anywhere from 49% to 70% of Bosnia. The Serbs agreed to more than 30 cease-fire and safe-area proposals, and sometimes even observed their promises for as long as five or six hours.

The U.S. played an ignoble role, agreeing to the partitioning of Bosnia and the U.N.'s having full command of the peacekeeping operation, which was manned by 23,000 lightly armed, ill-equipped troops, scattered in widely spread, hopelessly ineffective clusters. Predictably, the peacekeepers were attacked, ignored, overrun and taken hostage, and the U.N. convoys of food and medicine were allowed to pass only when the Serbs gave permission.

Putting a peacekeeping force into a battle zone where there is no peace ought to be a criminal offense. This U.N. force—under the control of weak commanders and U.N. negotiators who have no knowledge of war or, apparently, of history—was expressly forbidden to do anything to hurt

the Serbs. NATO's few, halfhearted requests for action generally were refused by the Russian-dominated U.N. (Russia last month also vetoed a pathetic U.N. resolution asking Serbia to stop violating U.N. bans on fuel shipments to the Bosnian Serbs, and, at the Conference on Security and Cooperation in Europe, vetoed two resolutions condemning Serb aggression and ethnic cleansing.) Because the U.N. fears retaliation against its peacekeepers, many of whom come from NATO countries, these forces have inadvertently protected the Serbs from any effective action. What earthly good does a force of 23,000 do if it is afraid to act because the aggressor might attack? Four thousand or so Red Cross, church and volunteer workers could better distribute supplies that the Serbs permit to be delivered.

When France and Britain recently threatened to pull out their peacekeepers, we rashly offered to provide thousands of U.S. troops to "protect any withdrawal." Our forces have been asked to perform some murderously idiotic tasks in the past two years, but nothing compared to the risks involved in trying to protect stranded U.N. forces—which have now decided to stay after all. The sooner peacekeepers are withdrawn, the better.

What should have been done?

We should have assembled a Gulf-war-like coalition and told Serbia that its military targets would be mercilessly bombed by air forces under U.S. command if Serbia continued attacking civilian populations. The Serbs would have stopped, knowing that the cost of continued missile attacks would be too high. Ground troops would not have been required. This would have saved tens of thousands of lives and served as a warning to future aggressors. The not-too-distant past provides a deadly parallel: the West's failure to stop Hitler, as could easily have been done, in 1936, when he went into the Rhineland.

If we want to stop future aggression, we must act as we did in the Gulf, and we must regain some of the military strength we have budgeted away. Already another murderous regime in North Korea has frightened us into a gross act of appeasement initiated by our own appeaser-negotiator: Jimmy Carter. Mr. Carter's intervention in Serbia will probably only result in invitations to Serb leaders to come to Plains, Ga. to teach Mr. Carter's Sunday school class—whose faculty includes prior invitees Kim Il Sung of North Korea and Lt. General Raoul Cedras of Haiti. ■

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Wage inflation raises its ugly head

THE OVERALL STATISTICS don't show it—yet—but anecdotal evidence suggests that the U.S. labor market has already tightened to the point where some wage inflation is sure to follow. In the Midwest in particular, where manufacturing is booming, labor specialists say that it's already reached a point where anybody who can move is being hired.

Skilled jobs, naturally, are the first to be affected. The employment service Manpower Inc. reports that workers in such areas as software, biotechnology and laboratory research are notably hard to find. Entry-level jobs are also opening up as companies promote from within.

It's not just in the Midwest that the job market is tightening. Peter Schenk of Barrett Business Services, of Portland, Ore., says that in the West construction workers in such trades as framing or finishing are in short supply.

In 1994 states such as Michigan and Illinois joined Florida, Texas and the smaller states in making heavy job gains. Even New York State added some new jobs (outside New York City). California, though, is still losing jobs.

Increasingly, companies are giving hiring bonuses to attract skilled workers. This has a one-time impact and avoids raising actual wage rates. Nevertheless, note that by December average hourly earnings for production

workers were increasing at around a 3% annual rate. That is up from around a 2.2% annual rate 12 months earlier, points out Adrian T. Dillon of Eaton Corp.

Overall unemployment (5.4% in December, a four-year low) is already a bit below what economists believe is a level that can be sustained without leading to inflation. More important, says H. Erich Heinemann of Ladenburg, Thalmann, the 4.7% unemployment rate for adults 20 years and over is around the lowest levels seen in the previous two economic cycles. And, Heinemann says, what's called the labor participation rate (the percentage of the over-16 population with a job) will in the next month or so exceed 1990's record level of 66.9%.

Employment costs will show an upward blip in the next couple of months as large, profit-related bonuses are paid to many manufacturing workers in the durable goods and especially the automobile sectors.

Total employment cost inflation, as measured by the Employment Cost Index, is still declining, 3.2% in 1994, down from 5% in 1989 and a high of 10% in 1981. The reason for this is the drop in benefit cost inflation, especially for health care. The upward pressure on inflation is, however, beginning to be felt.

Playing politics with the minimum wage

MOST OF THE 3.5 MILLION net new jobs added to nonfarm payrolls in 1994 were in services. The biggest gains were in personnel services (up 16%, or 420,000 jobs) and in business services (up over 10%, or 724,000 jobs). Other sectors gaining include retailing, the booming car trade and health care.

Shrinking government? Government gained 250,000 net new jobs, mostly at the state level

(88,000) and the local (213,000). Federal jobs declined by 48,000.

Manufacturing, still concerned about maintaining competitiveness, added just 290,000 jobs, biased toward production jobs. White-collar jobs actually declined a bit.

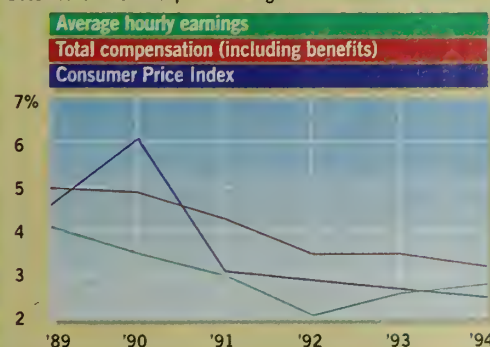
Even if manufacturing wages inflate by the 4% or so rate seen in 1989, prior to the last recession, unit costs will continue to fall because productivity is still rising at around a 5% rate. Much more difficult to estimate is what will happen in services, which involves two-thirds of the economy.

But here's an oddity from the White House. President Bill Clinton seems intent on shooting himself in the foot on the wage inflation front by raising the minimum wage from \$4.25 to \$5 an hour.

This is pure politics. The minimum wage applies to under 1% of full-time workers aged 40 and over, reports the Employment Policies Institute (it's mostly part-time teenage workers who benefit). But raising the minimum wage raises the floor under all wages, especially collectively bargained wages—which is why the labor unions push it.

No wage inflation, yet

December to December percent change

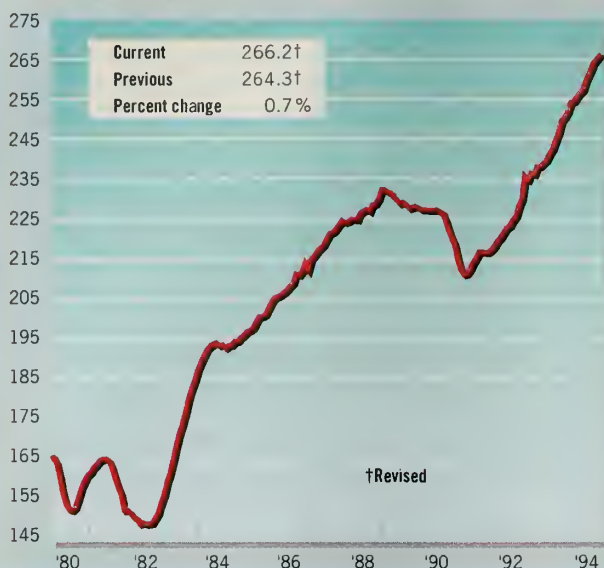


Source: Bureau of Labor Statistics

Steven Ranso/Forbes

he steady
ptick in
verage hourly
wages suggests
hat a rapidly
tightening labor
market will later
his year lead
o modest wage
flation.

The Forbes Index (1967=100)



Tight money days are far from over, says Tony Riley, director of research at the economic consulting firm Gary Shilling & Co. Riley thinks the Federal Reserve steering the economy into a "monetary wall" that will produce a 7% federal funds rate (the current rate is 5.5%). This is likely to lead to a recession by midyear, according to Riley. For the time being, the economy continues to show healthy growth. November's Index of Leading Indicators gained 0.3%. Domestic car sales increased 7.6% in 1994.

Other key rates

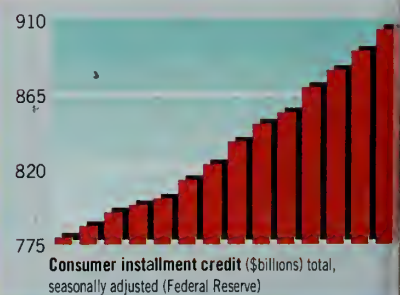
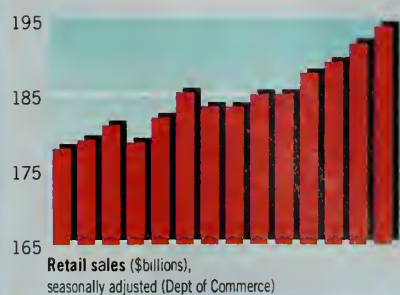
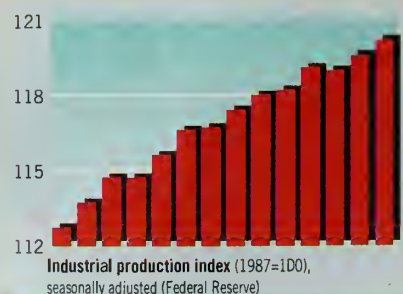
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1993 ¹	Ward's Automotive	7.6%
Index of leading indicators Nov vs Oct	Dept of Commerce	0.3%
Trade balance ² 12 months ended Oct 1994	Dept of Commerce	-\$103.1
All-commodity producer price index ³ Dec vs Nov	Dept of Labor	0.2%
GDP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	4.0%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	-0.6%

¹ U.S.-based manufacturers, excludes imports, as of 12/31/94. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



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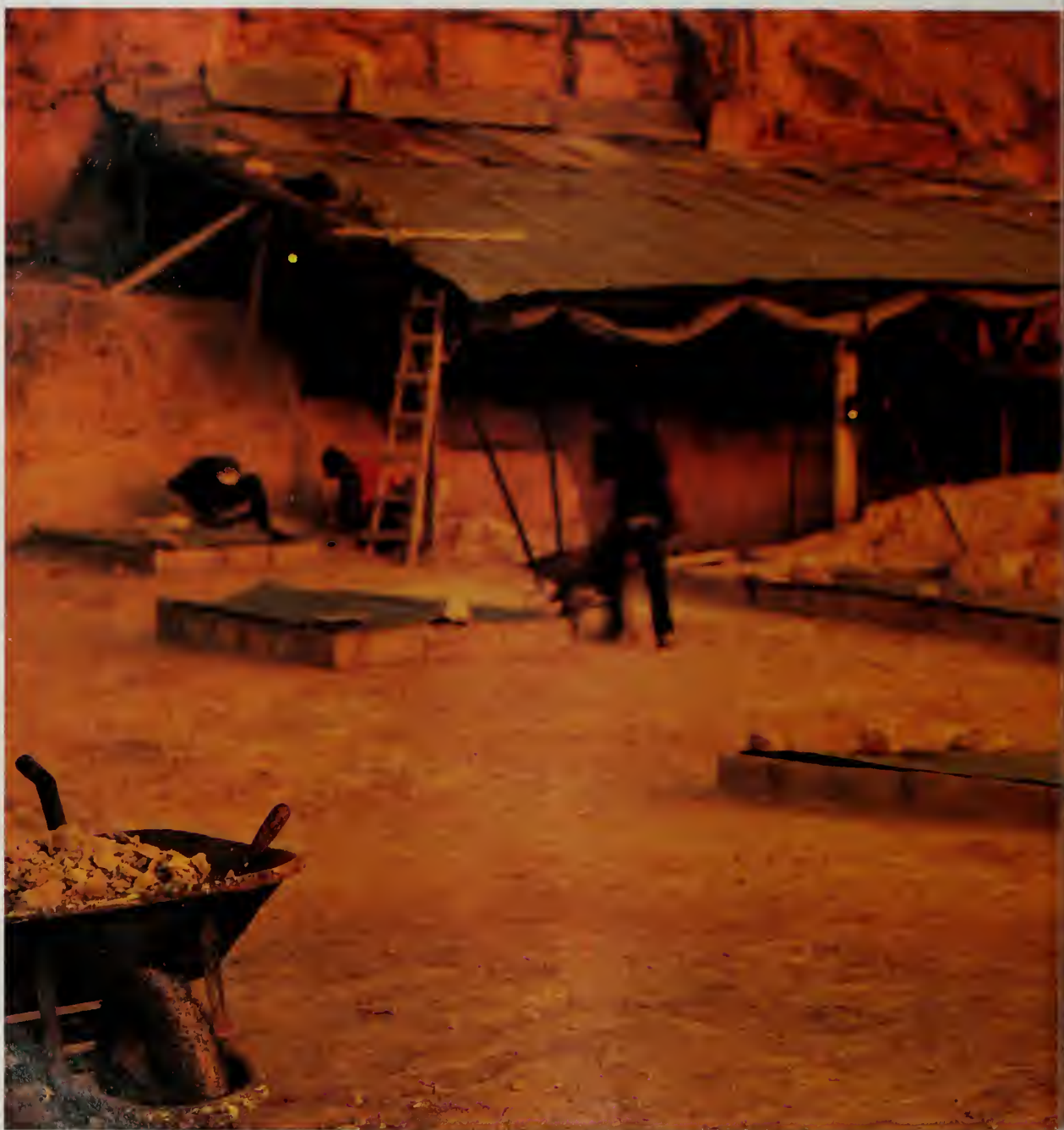
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David and Joan Helpern were of Social Security age when their thriving business collapsed. So what did they do? Started all over again.

"If you stand still, you die"

By Richard C. Morais

NESTLED BETWEEN the Mesa Grill and the Giorgio Armani boutique on lower Fifth Avenue in Manhattan is the creamy interior of a Joan & David shoe and clothing store. A Japanese woman, all in black, with lamb's wool earmuffs and a quilted leather string purse, inspects a \$249 boot, a \$140 bowler hat. "I want this with a rubber sole," commands a New Yorker in jodhpurs. It's all terribly elegant, hip. A melancholy jazz singer warbles over the hi-fi system.

Looks can be deceiving. Peek behind Joan & David's 30-something veneer and wrinkles reign supreme. The chairman is 77-year-old David Helpern, fresh from a quintuple bypass. Joan Helpern, David's designer wife and the company's chief executive, is white-haired and approaching 70. She sits reassuringly next to the firm's 91-year-old press agent, Eleanor Lambert. Collapsed on the table is Bijou, a poodle so old no amount of coiffing can hide bald patches.

Who says the world belongs to the young? In 1990, after a 25-year relationship with AnnTaylor ended in bitter dispute, the Helperns lost the franchise to sell shoes in the chain that had accounted for 66% of their retail business. Then department stores across the U.S. closed their expensive shoe salons, and Joan & David lost another \$25 million in sales.

This was the corporate equivalent of a massive heart attack followed by a

stroke. The Helperns could have shrugged and gone off to Florida. They were far from broke. But no. "If you stand still, you die," says David.

So Joan & David is doing better than ever. Sales are now exceeding \$115 million, 15% higher than before it lost the AnnTaylor business. "We scrambled," says David.

With David already in his 70s and Joan in her 60s, the pair started almost from scratch again. In just four years Joan & David replaced their AnnTaylor distribution with 43 stand-alone boutiques, including flagship stores in Paris, London and Hong Kong. In the same short time the couple launched an entire clothing and accessory line. Joan & David is no longer a shoe store; it's a small fashion emporium. All this, mind you, the old-fashioned way: no long-term debt; not a single person fired.

Joan met David 34 years ago, when she was running New York City's Board of Education child guidance and psychology programs. She was separated; he was a widower with a young son and a chain of New England shoe stores.

David realized Joan was a career woman. He did not expect his new wife to subordinate her career to his. A good thing. "The way you become a successful anybody," says Joan, "is by choosing a partner whose confidence level is high enough to allow both to perform as well as they can."

Joan and David Helpern
Suddenly they could no longer sell from AnnTaylor. "It hurt me," says Joan. "It was my baby."



Edward Scharf

But what did Joan, an educator who knew about shoes? Not much. In the 1960s New England's shoe manufacturing center was still dominated by industrial engineers who decided what designs to run based mostly on production costs. Fashions? That was women's stuff. Exactly.

Joan spoke up at a dinner of shoe makers in 1962. She derided the stilettoes and pointy toes that looked fine wrapped around a bar stool but were painful for active women. "I don't know anybody who would wear anything like this," she snapped. One manufacturer retorted: "If you know



Back in the U.S. in 1965, the couple discovered a little chain whose style and way of doing business appealed to them. It was AnnTaylor, and over the next 20 years the Helpers prospered by leasing space in this expanding chain. By 1989 the couple was running shoe departments in 127 AnnTaylor stores; they added a \$40 million wholesale business selling to stores like Neiman Marcus and Bloomingdale's.

"We're not on the cutting edge of fashion," explains Joan. "We're on the cutting edge of the real world and what's happening to women. Our designs relate to people of style, rather than people who get involved with momentary fashion."

The AnnTaylor relationship ended in the late 1980s, when AnnTaylor was floundering in a leveraged buyout. This was no longer the AnnTaylor they knew and loved. Lawsuits began to fly back and forth.

David negotiated a three-year phaseout with AnnTaylor and began opening Joan & David stores at a furious pace—moving inventory and personnel from leased AnnTaylor stores to stand-alone boutiques in Boston, Los Angeles and Dallas.

While David scouted locations and ran the business, Joan designed clothing and accessories lines. The clothing and accessories, made partly by Gruppo GFT in Italy, account for some \$30 million in sales.

Don't conclude from all this that David and Joan are two peas in a pod, always in agreement. There is a creative tension between them that helps make them a productive team. In the post-AnnTaylor moves, Joan and David sometimes quarreled over whether to take a particular location. "What Joan likes to forget," says David, "is we had to move at a rapid rate. You sometimes had to take locations that weren't your number one choice."

Right now there is disagreement between them on future expansion. The Helpers have just opened a Joan & David store on London's New Bond Street. David now wants to expand aggressively into Germany and Switzerland. Joan has a different view. She wants to open more stores in New York. "One of us will be stronger than the other," bristles Joan. David sets his jaw. "We'll do both," he says. ■

educator better, show us."

At 3 a.m. one night Joan found herself pulling down ribbons hanging from her four-poster bed as she made designs for their new company. One of their first hits was a pump in kid-skin. "I designed for women who move," she says. "The shoes were for a woman who juggled her life—heels were low, the shoes were chic, simple. They were soft and easy, compared to what was out there." After a year the hobby was a \$1 million business.

Expanding the business was a problem, however. "I traveled all over New England trying to get manufac-

turers to understand what we were trying to [do]," says David. "The prototypes that came out were these hard constructions. They were making seriously structured shoes when the marketplace was asking for fun, soft, easier shapes."

David sold his businesses and together they went to Europe in 1964 looking for manufacturers with imagination. They had seen Italian imports with that supple look Joan favored. Today, virtually all Joan & David's designs are manufactured in Italy, and little remains of the once grand New England shoe industry.

How the richest man in Mexico
copes with the peso crisis.

"There's lots of opportunity"

By Graham Button, Christopher Palmeri and Kerry A. Dolan

ONE THING we've learned over the years is that when things turn nasty, the really smart business person doesn't wring his hands. He casts about for ways to turn the disaster to advantage. Thus now with Carlos Slim Helú, 54, chief of the giant conglomerate Grupo Carso and the richest man in Mexico.

"There is a lot of opportunity for investors who believe in the peso," he told FORBES in an early January telephone interview, even as the Mexican government was throwing in bor-

rowed reserves to try to stop the currency's rout. "We are searching our businesses for dollars we can convert at 5.7 to the dollar."

Slim explained that, among other things, Grupo Carso companies were selling Mexican product into the futures market, bringing the dollars home and converting them into pesos. What's he doing with the pesos he's buying? Slim says he's lending them to Mexican banks at the prevailing rate of up to 60%. "There are few businesses," he reminds us, "where



Carlos Slim Helú

Where else can you earn 60%?

returns equal 60%."

Needless to say, Slim's comments are somewhat self-serving: It seems for a highly visible Mexican to talk up the peso at a time when the country's future appears to depend on checking its fall. However, what he says makes financial sense. If the peso stabilizes at 5.7 to the dollar, he earns 60%. If the peso were to settle at, say, 4.6 to the dollar, he would earn close to

Mexican money men: at the peak and after the fall

Name	Principal holdings	Estimated net worth —(\$bil)—	
		1/5/95	2/8/94
Carlos Slim Helu family	Grupo Carso; Grupo Financiero Inbursa	\$4.40	\$8.50
Emilio Azcarraga Milmo family	Grupo Televisa	2.90	7.30
Jeronimo Arango	Cifra; Banamex-Accival	1.90	2.80
Zambrano family	Cementos Mexicanos; Banamex-Accival	1.80	3.80
Peralta family	Iusacell	1.60	2.90
Alberto Bailleres	Industrias Penoles; Palacio de Hierro; Femsa	1.40	2.20
Pablo Aramburuzabala Ocaranza	Grupo Modelo; Banamex-Accival	1.30	1.80
Alfonso Romo Garza	Empresas La Moderna; Seguros Comercial America	1.20	2.70
Jorge Larrea Ortega	Grupo Mexico; Banamex-Accival	1.20	1.20
Bernardo Garza Sada family	Alfa; Vitro	1.00	1.20
Angel Losada Gomez	Grupo Gigante; Banamex-Accival; Telefonos de Mexico	0.80	2.20
Adrian Sada Gonzalez family	Vitro; Cydsa; Grupo Financiero Serfin	0.76	1.50
Lorenzo and Robert Servitje			
Sendra families	Grupo Industrial Bimbo	0.70	1.50
Gonzalez Nova family	Comercial Mexicana	0.64	2.00
Roberto Gonzalez Barrera	Grupo Industrial Maseca; Grupo Financiero Banorte	0.60	1.10
Ricardo Salinas Pliego	Grupo Elektra	0.60	1.20
David and Adriana Penaloza	Grupo Tribasa	0.57	1.80
Molina family	Grupo Embotellador de Mexico	0.56	1.70
Franco family	Grupo Infra; Telefonos de Mexico; Banamex-Accival	0.55	1.10
Moises and Antonio Cosio Arino	Telefonos de Mexico; Banamex-Accival	0.52	1.10
Martinez Guitron family	Grupo Sidek; Grupo Financiero Bancomer	0.50	1.20
Eugenio Garza Lagueria family	Valores Industriales; Grupo Financiero Bancomer	0.43	1.70
Alfredo Harp Helu	Banamex-Accival	0.40	1.50
Roberto Hernandez Ramirez	Banamex-Accival	0.40	1.50

Here was a tipoff that the peso was tremendously overvalued: Of the 358 people identified as billionaires in the latest Forbes world survey (July 18, 1994), 24 were Mexican—a percentage out of all proportion to Mexico's place in the world economy. Valuing the peso at just over 3 to the dollar made them seem relatively richer than they really were in global terms.

The paper losses these people have suffered so far weigh lightly compared with those of the many who will lose their jobs or submit to a drop in an already low standard of living. But not all will come through as handily as Carlos Slim Helú. With the peso at 5.7 to the dollar and the Mexico City Bolsa down about 21% from its 1994 highs, here are our revised estimates of the net worths of the richest Mexicans.

100% rate. With 60% interest he is comfortably cushioned against a further devaluation. The peso would have to fall below 9.1 to the dollar before he would lose money.

No doubt critics will accuse him of profiting from his country's distress. In fact, by borrowing dollars against his future output he is lending support to the government's efforts to bolster the currency. He bets big money that the government will be able to keep inflation from erasing the positive aspects of the devaluation. Some reasons he expects the currency to eventually stabilize and thus confirm the wisdom of his bet on the peso at its depressed levels:

"We will have import substitution, not because of protectionism but because of the undervalued peso. Domestic demand will drop, but more of it will flow into Mexican products. Within the year our \$20 billion trade deficit will disappear." Slim expects increased exports of his aluminum and copper. Domestic demand will grow for his Mexican cigarettes and tires.

Pretty sanguine, that, from a man who, by *FORBES'* reckoning, has seen his paper wealth dwindle by around \$4 billion in less than a year (*see table, opposite*). Of the 24 Mexicans we counted as billionaires last year, only 10 would still make the cut.

The Slim fortune was hard hit by the currency devaluation. But Grupo Carso is better off than many big Mexican companies that ran up a lot of dollar debt and now must service it with a peso that has lost almost half its value. Grupo Carso has only about \$130 million, or 12%, of its debt denominated in dollars.

Not all of the 24 will ride out the crisis as handily as Slim. The Zambrano family's Cemex, the international cement giant, has nearly \$3 billion, or 90%, of its debt denominated in dollars. Big Mexican banks are caught between deteriorating loan portfolios and the skyrocketing cost of money. And they face tougher competition as the crisis forces the government to open the financial system to foreign banks.

Financial panics paralyze most people. They freeze. Those who act boldly and positively serve both their countries and themselves. Carlos Slim capitalism at its best.

As fast as the cops shut down one penny stock bucketer, the boys regroup under a different name—and then the game starts all over again.

Call me Dickinson

By Amy Feldman and Neil Weinberg

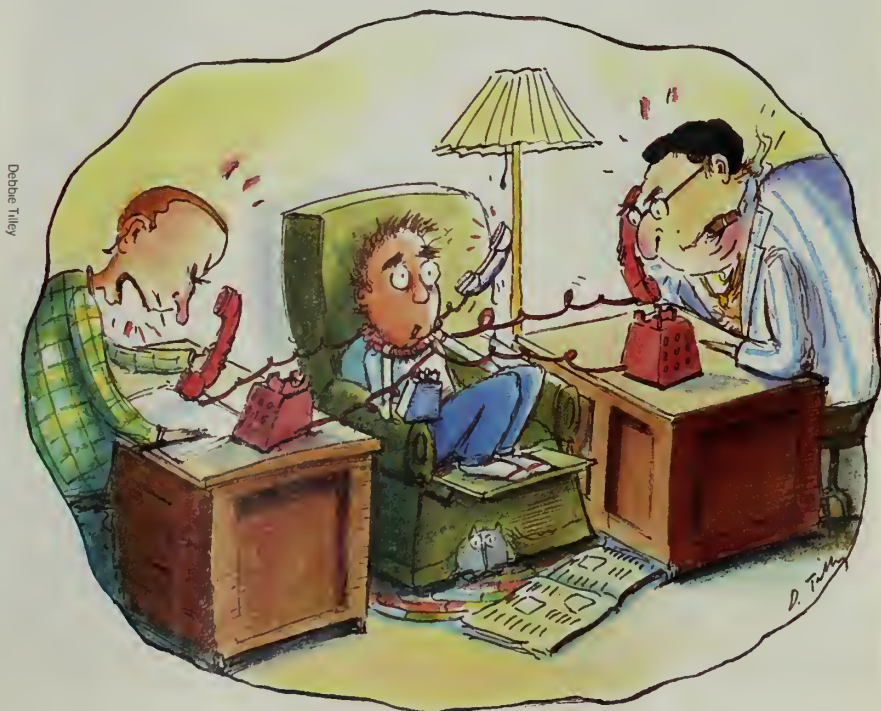
THE GREEK GOD Proteus had the power of assuming whatever shape suited him. Thus the word protean, the ability to change form.

The bucket shop industry is nothing if not protean. No sooner do scandal and the authorities shut down one bucketer, than the personnel simply regroup under a new name and continue their larcenous ways.

Dickinson & Co. was a struggling Iowa-based regional brokerage whose owner was bankrupt when a group led by T. Marshall Swartwood took it over in 1990. Swartwood has long-standing ties to Eugene Mulvihill, owner of Mayflower Securities and mentor to the notorious Robert

Brennan (*FORBES*, Oct. 26, 1992). A burly ex-Marine, Swartwood has transformed Dickinson into one of the nation's hottest peddlers of worthless and near worthless securities, with 22 offices and over 200 brokers. Nearly half of Dickinson's offices are run by salespeople who once plied their trade at now defunct bucket shops J.W. Gant and F.N. Wolf, two of the sleaziest outfits ever driven out of the industry.

F.N. Wolf traces its disreputable lineage to Robert Brennan's First Jersey Securities, long since out of the penny-stock business. Last year Wolf went out of business amidst a National Association of Securities Dealers in-



Debbie Tiley

D. Tiley

vestigation of its penny stock sales practices, while closely linked Hibbard Brown was banned by the NASD on the grounds that its markups were excessive—which indeed they were. J.W. Gant (*May 13, 1991*) was shut down by the NASD in 1993 for similar sins.

Now Dickinson & Co. The name is different, but the pitch is almost unchanged. Dickinson uses a two-call system. The first call is relatively low key: "I'm so-and-so and from time to time I get some very good stocks; may I call you when I next get one?"

The second call is the hard sell: "I'm not calling you today to play games or waste your time. I have what I believe is a very exceptional situation. I'm only offering it to my best, select clients, and a few prospective clients like yourself."

Swartwood knows the pitch well. Decades back, while living in Chatham, N.J., he met Eugene Mulvihill. Swartwood sat on the board of Mulvihill's Great American Recreation, a New Jersey amusement park operator; his lover still does. Mulvihill and Brennan have made millions on Great American and other properties, while others have lost their shirts. Among the losers are trusts managed by Democratic Party hostess and now Ambassador to France Pamela Harriman (*FORBES, Jan. 2*).

Dickinson has done a total of six underwritings for companies that have been affiliated with Robert Brennan: Great American and Digital Products.

Kurt Novey, 30, was Gant's senior vice president of investments and is

now Dickinson's national sales manager. One sales script provided to *FORBES* even has J.W. Gant scribbled out and replaced with "Dickinson & Co."

Ask William Johnson, 57, what happens to people who respond to the Dickinson two-call pitch. From January 1993 to August 1994 the Los Angeles engineer spent over \$60,000 on stocks from a cold-calling Dickinson broker. Most of the money went into computer maker Photonics. If Johnson could sell his remaining

Dickinson & Co., a once sleepy brokerage, has provided a haven for scores of brokers from bucket shops run out of business.

stocks today he might—might—get back \$28,000.

An investor who on opening day split \$100,000 equally among each of Dickinson's most recent ten underwritings—all since late 1993—would have already lost a quarter of his money.

Dickinson's most dubious initial public offering: Dickinson. Last May it raised \$4.5 million for itself selling 625,000 units. Those \$4 shares recently traded at \$2.50. You would have to be hopelessly naive to think them a bargain at that price.

The cops are starting to take notice

of Dickinson. Last month Mark Hamel, a former Dickinson broker, pleaded guilty to criminal fraud for failing to disclose \$233,000 in kickbacks to securities shares of Fairmont Resources, an unregistered Canadian penny stock. Dickinson's Boston branch manager John Laurienti, a former Gant manager, received commissions and overrides on the trades, the state of Massachusetts charged. By the time the new broker, Dickinson had closed its Boston office and moved Laurienti to New York to run that Dickinson office. Laurienti has agreed to return \$3.7 million and pay a \$20,000 fine to settle the charges.

In Dallas the Securities & Exchange Commission this month launched an unannounced audit, according to brokers there. Nevada, Kansas and Pennsylvania have already charged Dickinson with securities violations since Swartwood took over.

But these chaps are pretty clever, including the cops. Last summer F.N. Wolf, the authorities hot on its trail, sold its Charlotte, N.C., La Jolla, Calif. and Metairie, La. branches to Dickinson. Each branch manager trod the same career path—First Jersey, F.N. Wolf and now Dickinson.

"We do not conduct business along the lines of the nefarious penny stock brokers or so-called bucket shops," insists Thomas Swartwood, the boss' son and the in-house Dickinson lawyer.

If you believe that, you'll believe anything. Beware Dickinson. Beware the broker with the two-call technique.

A sampling of Dickinson offerings

Company	Business	Date of offering	Offering price*	Recent price	Annualized gain/loss from offering price
Dickinson Holding	brokerage	5/94	\$4.00	2¾	-48%
Digital Products	prisoner monitoring products	2/92	12.00	7/16	-68
Great American Recreation	recreation park	3/94	0.55	5/32	-80
Hammers Plastic Recycling	recycled plastics	9/93	2.75	2¼	-15
Harold's Stores	specialty apparel retailer	7/93	6.75	10	49
Mobile Mini	storage container maker	2/94	4.50	3½	-22
Polish Telephones	telecomm equipment	8/94	7.00	3¾	-80
Senior Tour Players	golf course developer/operator	11/94	5.00	29/16	-99
TNC Media	publisher of Pike County Dispatch	11/91	4.13	2¾	-13
Trinity Biotech†	AIDS testing	10/92	4.40	21/16	-29

Recent prices as of 12/30/94. *Offering price for issues sold as common shares; opening price for shares sold as part of units. †ADRs.

Sources: Company prospectuses; Bloomberg.

Cold-calling brokers stake their reputations on deals like these. So much for their reputations.

After passing up Bally, ITT is buying Caesars World. The giant conglomerate may be betting on the wrong casino.

The one that got away

By Rita Koselka

LESS THAN two years ago ITT Corp. could have bought Bally Entertainment Corp.'s three gambling casinos. The deal fell through, and in December ITT bought Caesars World and its three Roman-themed casinos in Las Vegas, Atlantic City and Lake Tahoe.

ITT may well have passed up the better deal. It could have had Bally's gambling operations for around \$850 million in cash plus assumption of \$260 million in debt. Instead ITT agreed to pay almost twice as much for Caesars—\$1.7 billion in cash and about \$150 million in assumed debt. Yet the two companies are almost identical in revenues and operating income from gambling operations.

Why did ITT let Bally slip through its fingers? It would appear that ITT Chief Executive Rand Araskog and his aides were looking at Bally's past rather than at its potential. In that, he was not alone. Even today the market values Bally's entire common capitalization at about \$300 million—just a fraction of the probable market value of its properties.

Bally Chief Executive Arthur Goldberg says Araskog flip-flopped on whether he wanted all three of its casinos in Las Vegas and Atlantic City or just the Bally Grand in Las Vegas. Goldberg says he insisted on the package deal. Through a spokesman, ITT confirms that in the end it was interested only in the Las Vegas casino.

Goldberg's argument was that in casinos, as in a Monopoly game, a company gains by having properties on all the squares of the same color, that is, in all the major gambling centers. Why? Because Goldberg feels there is brand-name value that can be

the slot machines, which are the fastest-growing part of gambling. Caesars caters to lots of high rollers, seeking to attract the sort of customer who might bet \$20,000 on a baccarat hand. When the house is doing well—as it does in the long run—Caesars rolls net margins just a little over 7%. But when the high rollers win—as inevitably they will from time to time—Caesars' earnings can come up snake eyes for an entire quarter. Earnings in the first quarter of its 1995 fiscal year, for example, are down 20% from the year earlier.

Bally's customers aren't usually the



Gambling head Wallace Barr, Chairman Arthur Goldberg and Chief Financial Officer Lee Hillman
"I don't know if Bally will be a buyer or be bought. Hopefully, a buyer."

exploited better with multiple locations. Araskog must have come to agree, for with Caesars World he is buying the whole company.

ITT may also have overlooked Bally's potential strengths. Bally is in a part of the market that promises superior growth. Why? Gambling casinos aren't homogeneous. Caesars World runs a different sort of gambling enterprise than Bally.

For one thing, Bally's clients love

sheikhs, European playboys and Japanese multimillionaires who patronize Caesars, but neither are they hoi polloi. A cut down from the players at Caesars World, they are several cuts higher on the income scale than the family crowd that, say, Circus Circus draws. While the superrich may be getting richer, they are not increasing all that fast in numbers. There are a lot more prospective customers in Bally's part of the market than in Caesars'.

But Bally's strengths have gone largely unrecognized, in good part because the company was such a mess just a few years back. Under Goldberg, Bally has come a long way from the mismanaged, junkiest-of-the-junk-indebted outfit that he took over in 1990. At that time some of its bonds were selling for as little as 10 cents on the dollar, and its whole common stock capitalization, at \$2 a share, was only \$80 million. Bally's board had just ousted management and installed Goldberg, the principal stockholder, with 9% of the stock, as the "temporary" chief executive.

By the time ITT and Bally started talking in 1993, results from the turnaround were just beginning to show. Goldberg had sold or spun off assets, refinanced Bally's debt and invested in upgrading its seedy casino properties. Among the assets that went was the slot machine manufacturing operation on which Bally was founded in 1931. Its health club chains, including Jack LaLanne and Vic Tanny, will be spun off. Goldberg reduced debt on Bally's casinos from \$1.6 billion to \$1 billion and refinanced to cut interest costs from \$230 million in 1990 to \$130 million last year. "The dice sure rolled their way on their refinancings," says Merrill Lynch high-yield analyst Richard Byrne. "They timed every market opening perfectly."

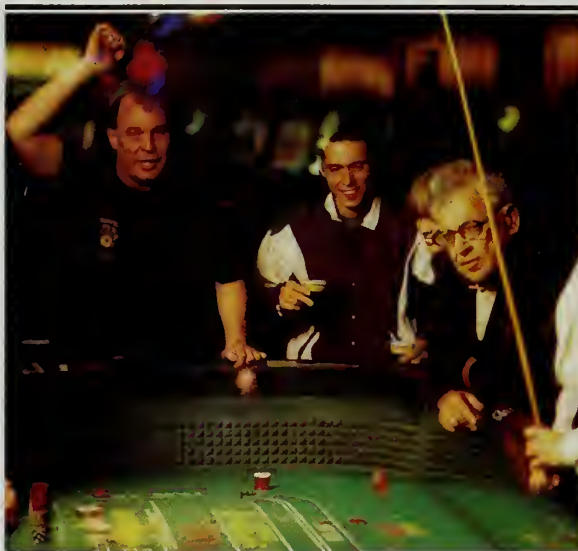
With all of those moves, Goldberg increased operating earnings—before interest, taxes, depreciation and amortization—to \$225 million in 1994, up 25% over 1993 (partly thanks to the consolidation of the Las Vegas casino).

To upgrade the casinos, gambling head Wallace Barr tossed out the old Bally-made slot machines and replaced them with up-to-date machines from former competitor International Game Technology. He reduced the number of slot machines, replacing the assembly line look with a more spacious ambiance and increasing the number of \$50 and \$100 machines. Slot revenues were up 10% last year in Bally's Park Place, already the most profitable casino on Atlantic

City's famous Boardwalk, despite competition from Donald Trump's Taj Mahal and Promus' Harrah's.

Down the Boardwalk at the Bally Grand, formerly the Golden Nugget, Barr's slot renovations increased earnings 15% in the last quarter of 1994. Bally is adding 30% more gambling space to the Grand by April, thanks to loosened New Jersey regulations.

In Las Vegas, flashy new casinos such as the MGM Grand and Mirage's Treasure Island have opened in the last 18 months. Fighting back, Goldberg built a high-tech new entrance to the Bally Grand, with moving side-



Bally's Park Place on Atlantic City's Boardwalk

Like a Monopoly game come to life. Take your chance.

walks, fountains and laser lights. Walk-in business is up 20% since its completion last July. A monorail to the MGM Grand is planned for this year.

Bally has also been active in the newly opened jurisdictions. It had one of the first "riverboats" in Tunica County, Miss., just south of Memphis. "Tunica was a disappointment but a good education for us," says Wally Barr, rolling his eyes. According to Dean Witter's Joseph Cocciaglio, three of the first 13 "riverboats" in Tunica have sunk or moved. But Tunica wasn't a disaster for Bally. "The good news is we didn't spend too much money," chips in Goldberg. He is hoping to recoup his investment.

Goldberg hasn't given up on river-

boats. He says that New Orleans, where he expects to open a riverboat in early 1995, will be different. Unlike Mississippi, Louisiana has authorized only 15 riverboats throughout the state. Bally won a license, beating out the likes of ITT Sheraton and Donald Trump. Goldberg says he plans on investing at most \$44 million in the operation and getting his money out in two or three years.

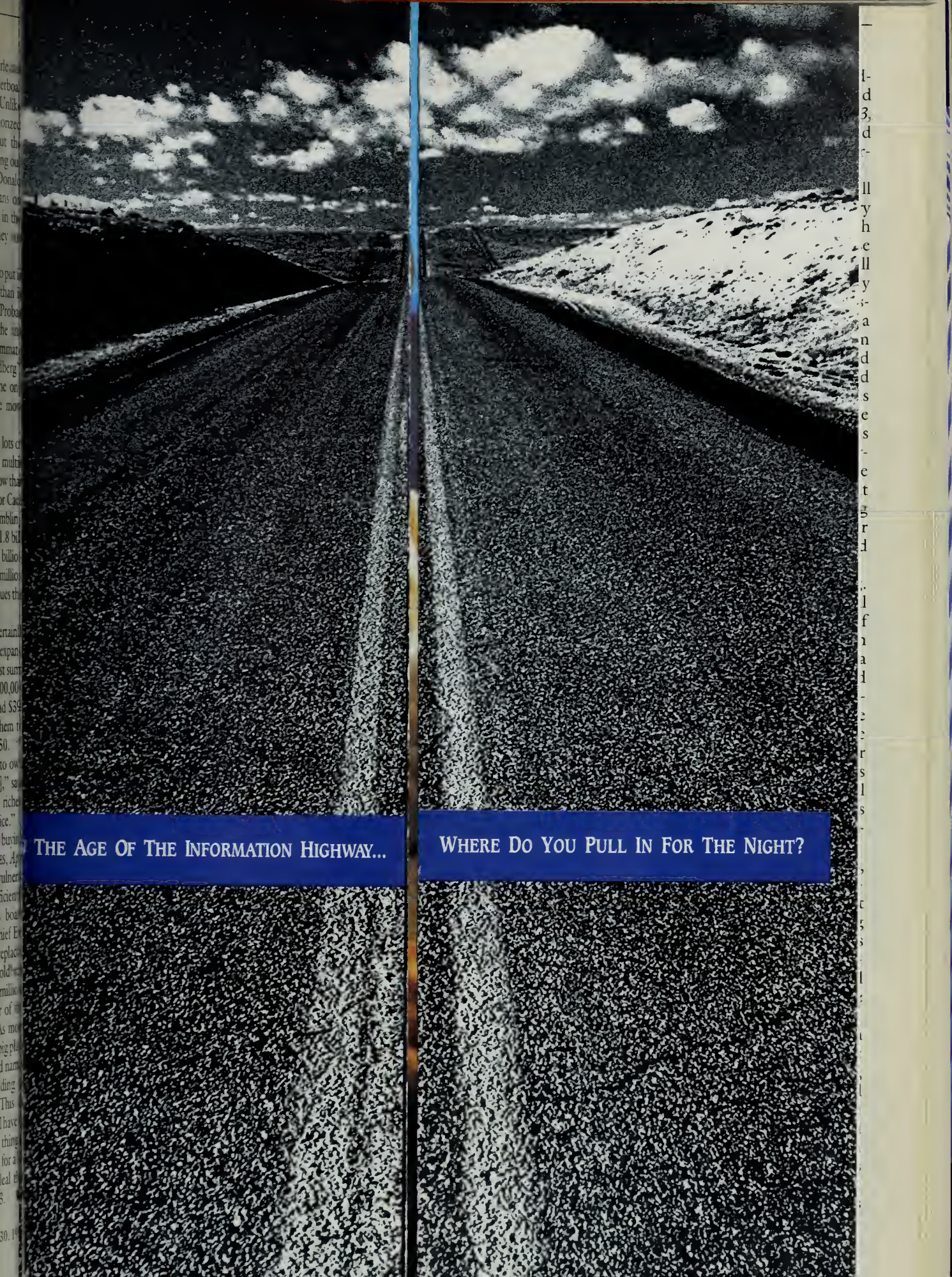
Is Goldberg fattening Bally to put on the block at a better price than would have fetched from ITT? Probably Goldberg doesn't know the answer himself. He is the consummate pragmatist. In Goldberg's game, the winner is the one who ends up with the most money.

Either way, Bally has lots of upside potential. At the multiple of operating cash flow that ITT has agreed to pay for Caesars World, Bally's gambling operations are worth \$1.8 billion today—less its \$1 billion in debt—not the \$300 million at which the market values the company.

At times Goldberg certainly acts as if he wants to expand rather than sell out. Last summer he had Bally buy 400,000 Caesars shares at around \$39. He is sure to tender them to ITT for about \$67.50. "I would have preferred to own the company [Caesars]," says a dapper, and now rich, Goldberg, "but not at that price."

Goldberg also had Bally buy shares in Circus Circus (FORBES, April 11, 1994), widely viewed as vulnerable to takeover. This move unsettled the Circus Circus board that it ousted founder and Chief Executive William Bennett and replaced him with Clyde Turner. Goldberg sold his stake at a profit of \$4 million.

Consolidation is the order of the day in the casino business. As more places open to gambling, the big players seek to capitalize on brand names and loyal followings by building acquiring in new locations. This almost guarantees that Bally will have to expand or sell out. Only one thing is certain: If it sells out, it will be for a lot more than the \$1.1 billion deal that ITT walked away from in 1993. ■



THE AGE OF THE INFORMATION HIGHWAY...

WHERE DO YOU PULL IN FOR THE NIGHT?

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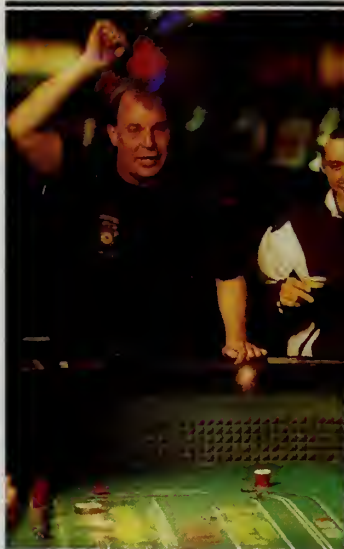
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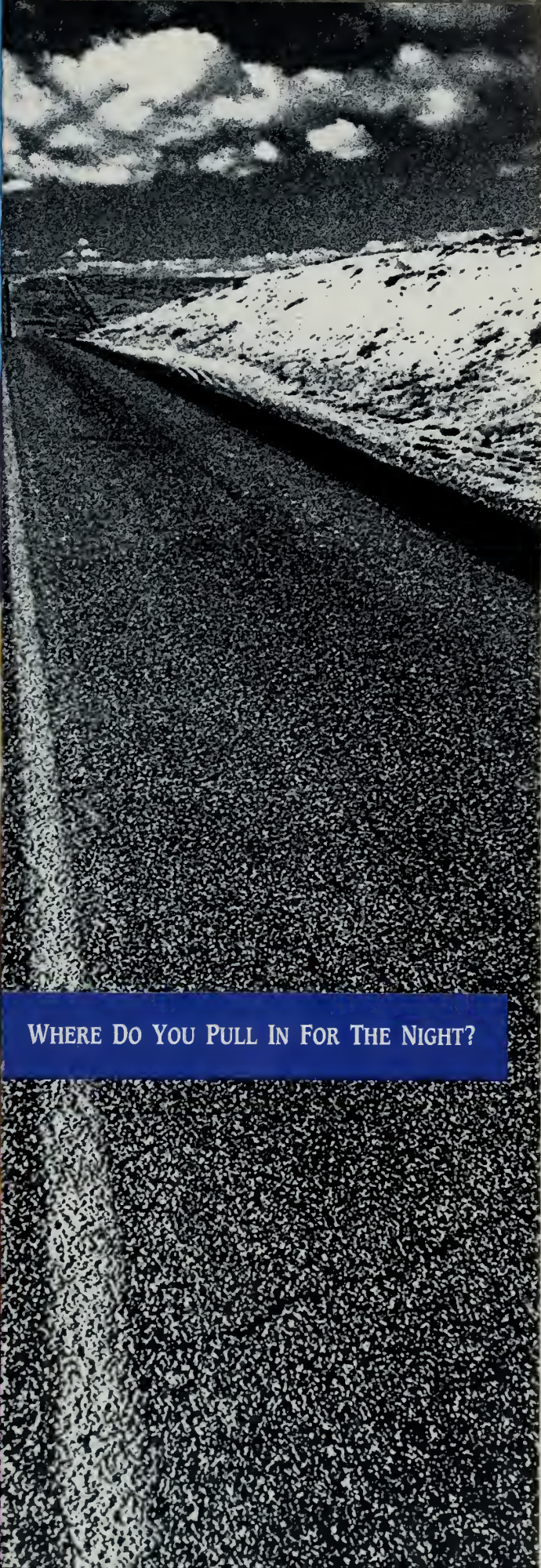


Bally's Park Place on Atlantic City's Boardwalk. **Like a Monopoly game come to life**

walks, fountains and a new Walk-in business is up and running since completion last July. At the MGM Grand is also opening this year.

Bally has also been successful in its newly opened jurisdiction. One of the first "riverboats" in Tunica County, Miss., just south of Memphis. "Tunica was a disaster, but a good education for Wally Barr, rolling his eyes and saying, 'miglio, three of the five boats' in Tunica have survived. But Tunica wasn't a disaster. "The good news is we're not losing too much money," says Goldberg. He is hoping for a big investment.

Goldberg hasn't given



WHERE DO YOU PULL IN FOR THE NIGHT?

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Hyatt Regency La Jolla ■
Hyatt Regency Long Beach ■
Hyatt Regency Los Angeles ■
Hyatt at Los Angeles Airport ■
Hyatt Regency Monterey ■
Hyatt Newporter (Newport Beach) ■
Hyatt Regency Suites Palm Springs ■
Hyatt Richeys (Palo Alto) ■
Hyatt Regency Sacramento ■
Hyatt Regency San Diego ■
Hyatt Regency San Francisco ■
Hyatt Regency San Francisco Airport ■
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Park Hyatt San Francisco ■
Hyatt San Jose ■
Hyatt on Sunset (Los Angeles) ■
Hyatt Westlake Plaza ■
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Hyatt Regency Vancouver ■
- COLORADO**
Hyatt Regency Beaver Creek Resort ■
Hyatt Regency Denver ■
Hyatt Regency Tech Center (Denver) ■
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Hyatt Regency Grand Cypress ■
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Hyatt Regency Miami ■
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Hyatt Sarasota ■
Hyatt Regency Tampa ■
Hyatt Regency Westshore (Tampa Int'l Airport) ■
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Hyatt Regency Atlanta ■
Hyatt Regency Savannah ■
Hyatt Regency Suites Perimeter Northwest (Atlanta) ■
- HAWAII**
Hyatt Regency Kauai Resort ■
Hyatt Regency Maui Resort ■
Hyatt Regency Waikiki Resort ■
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Hyatt Deerfield ■
Hyatt Lisle ■
Hyatt Regency Oak Brook ■
- Hyatt Regency O'Hare (Chicago) ■
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Skeptics, Forbes among them, were ready to write off McDonnell Douglas a few years ago. Did we get it wrong.

Roast crow, anyone?

By Howard Banks

AS SHAKESPEARE'S Henry V chatted up his troops in the wee hours before the Battle of Agincourt, so Harry C. Stonecipher often spends early mornings wandering the factory floors and talking shop with the workers at McDonnell Douglas Co.'s jet airliner factory in Long Beach, Calif. "That's where you find out what's going on," says Stonecipher, who spends a good part of his time in Long Beach rather than in MD's corporate headquarters in St. Louis.

Stonecipher, 58, is McDonnell

Douglas' new chief executive, appointed last September. He is a clear break with the past. McDonnell Douglas was created from a merger of two pioneering aviation firms, each headed by a commanding figure—Douglas by Donald W. Douglas, McDonnell by James S. McDonnell. Stonecipher succeeded John F. McDonnell, 56, a son of one of the founders, so he is the first nonfamily member to head the company.

Stonecipher, who began as a lab technician at GM's Allison division,

made his mark turning around Sundstrand Corp., maker of aerospace and industrial products (FORBES, Nov. 23, 1992). Before Sundstrand, he worked at GE, eventually heading manufacturing for its jet engine business.

Just a few years back, McDonnell Douglas was in bad shape, but Harry Stonecipher takes over a much strengthened company. With defense orders shrinking and with McDonnell Douglas' jetliner business crowded by Boeing and Europe's Airbus Industrie, John McDonnell had to wield a sharp ax. As revenues faded from \$18.1 billion in 1991 to around \$13.5 billion in 1994, he succeeded in cutting costs even faster. He thus disappointed a lot of people who were predicting that McDonnell Douglas wouldn't survive in the airliner market. FORBES had been among the skeptics, saying in June 1992 that John McDonnell was rapidly running out of cards to play. Stonecipher laughs as he acknowledges that he had joined in that earlier speculation.

John McDonnell proved us wrong. Excluding unusual items, McDonnell Douglas has turned from a loss of \$101 million in 1990 to earning an estimated \$570 million (\$14.50 a share) in 1994. Debt has been pared to 27% of total capital; the cash position now exceeds \$260 million. The stock has shot from under \$40 in late 1992 to the equivalent of \$142 (after this month's 3-for-1 split, the stock is currently \$47.50). "The financial strength of McDonnell Douglas is going to surprise the hell out of people," Stonecipher says.

Not everybody is yet convinced, however, that the company can continue as a player in the commercial jet business. Plastered all over the Long Beach plant, bearing Stonecipher's picture and signature, are posters saying "I want to see [McDonnell Douglas] surpass Airbus Industrie and become No. 2."

At present the score in the civilian market for jets 100 seats and over is: McDonnell Douglas 10%, Airbus 38%, Boeing 50%. So Stonecipher would seem to be asking the impossible. On the other hand, Stonecipher does wield a potent weapon: very low production costs. The work force at Long Beach is now 12,000, down from 35,400 in late 1991. The plant, Stonecipher says, has



Harry Stonecipher, McDonnell Douglas' new chief executive
In his wish to beat Airbus Industrie he wields a potent weapon.



An artist's rendition of the proposed 100-seat MD-95

"We're going to produce this aircraft cheaper by far than anybody else," Stonecipher vows.

cut costs so much that it now makes an operating profit in commercial jets even though it is delivering only a relative handful (an average of 2½ a month in 1994, down from 6½ a month in 1993) of airliners a year.

Much rests on the MD-95 program, the latest proposed 100-seat version of McDonnell Douglas' 170-seat MD-80. Originally designed 25 years back as the DC-9, these twin-engined jets are workhorses in the short- to medium-range market, but the plane needs rejuvenation if it is to compete with newer products coming from Boeing, Airbus, Daimler-Benz Aerospace's Fokker subsidiary and Britain's Avro.

McDonnell Douglas isn't betting the company on the MD-95. Half the \$1 billion nonrecurring development cost is for engines being developed in partnership between Britain's Rolls-Royce and Germany's BMW.

Most of the rest of the investment is to be laid off on partners who will build large parts of the airframe. The MD-95's wings, for instance, are to be built in Korea by Halla Engineering and Heavy Industry Ltd. The plane itself would be assembled at Love Field, Tex. by Dalfort Aviation, a subsidiary of closely held Astraea Aviation, a move that, over time, is expected to bring over \$50 million in local tax breaks and other subsidies.

Add up the contributions of the supplier/partners, and McDonnell's upfront costs on the MD-95 work out to well under \$200 million—small change by industry standards.

But sharing the costs this way incurs sizable risks for McDonnell Douglas. It will become heavily dependent on other people's ability to deliver while still carrying full market responsibility for the plane. For example, the Rolls/BMW engine is a new type, and the Korean firm has no

experience in the tricky area of making wings (its new wing plant will be built alongside its shipyard). As for Dalfort, it has plenty of experience in overhauling planes but none managing the complicated task of assembling them from scratch.

Stonecipher insists the risks are worth taking. Worldwide demand for airliners is growing at 5% a year and money can be made, he says, by sticking to niche markets. At least 800 aircraft of the MD-95 size are expect-

"We're looking at a record year [1994] for the company, and 1995 is going to be even better."

ed to be needed between now and 2010. He also says low costs will give his company a big marketing edge. "We're going to produce this aircraft cheaper by far than anybody else," he says. He plans to sell MD-95s for around \$22 million to \$23 million. Compare the MD-95's price tag with the up to \$37 million tag for a comparable version of Boeing's 737, or \$39 million for the A319 Airbus.

The customers will have the final say. The MD-95 has been tailored specifically to suit Scandinavia's SAS—long a Douglas fan—but John McDonnell indicates that board approval for the MD-95's go-ahead requires more than just SAS' signing up. So far no other airline has. Harry Stonecipher has taken personal charge of the marketing effort for the MD-95.

What happens if he lands too few additional customers? It's likely that McDonnell Douglas would have to abandon the business that Donald

Douglas once dominated. Doing so would be an ego-buster for this proud company and cost thousands of jobs in southern California. It would not, however, undermine the company.

That's because the military side is surprisingly healthy. Stonecipher says the F-15 fighter, the F/A-18 Navy attack aircraft, the T-45 trainer and other MD military craft will continue to be produced at low volumes for years. If there are budget cutbacks or delays to new programs such as the Lockheed F-22 fighter, existing McDonnell Douglas products will get renewed lease on life. Stonecipher also says his company has solved the technical problems with the C-1 military transport and is getting cost overruns under control. Its Delta rocket continues to be the most reliable satellite launcher.

In mid-December Stonecipher got a bonus. The U.S. Claims Court ruled that the Pentagon had erred in the way it canceled a program in early 1991 to develop a new attack plane (the A-12) for the Navy. McDonnell Douglas wrote off \$350 million at the time, and its partner, General Dynamics, \$750 million. Including interest, the partners claim to be owed around \$2 billion, though they will not speculate how much they may get. The court has not yet ruled on this.

With its military business humming along, McDonnell Douglas is throwing off nearly \$850 million (\$21 share before a January 3-for-1 stock split) a year in free cash flow after covering interest, dividends, capital outlays and an unusual 1994 tax payment. Out of this it could easily finance the MD-95 if it went ahead with the program. Meanwhile, it is giving some of the money back to shareholders. The company announced in October it was raising the dividend and would buy back about 15% of its 40 million shares outstanding before the split.

"We're looking at a record year [1994] for the company, and 1995 is going to be even better," says Stonecipher. He likens what's happening at McDonnell Douglas to the turnaround at Chrysler. "Look," he says, rapping the table for emphasis. "We have zero downside and a lot of upside." Not bad for a company over which the short-sellers were swarming just a couple of years ago.

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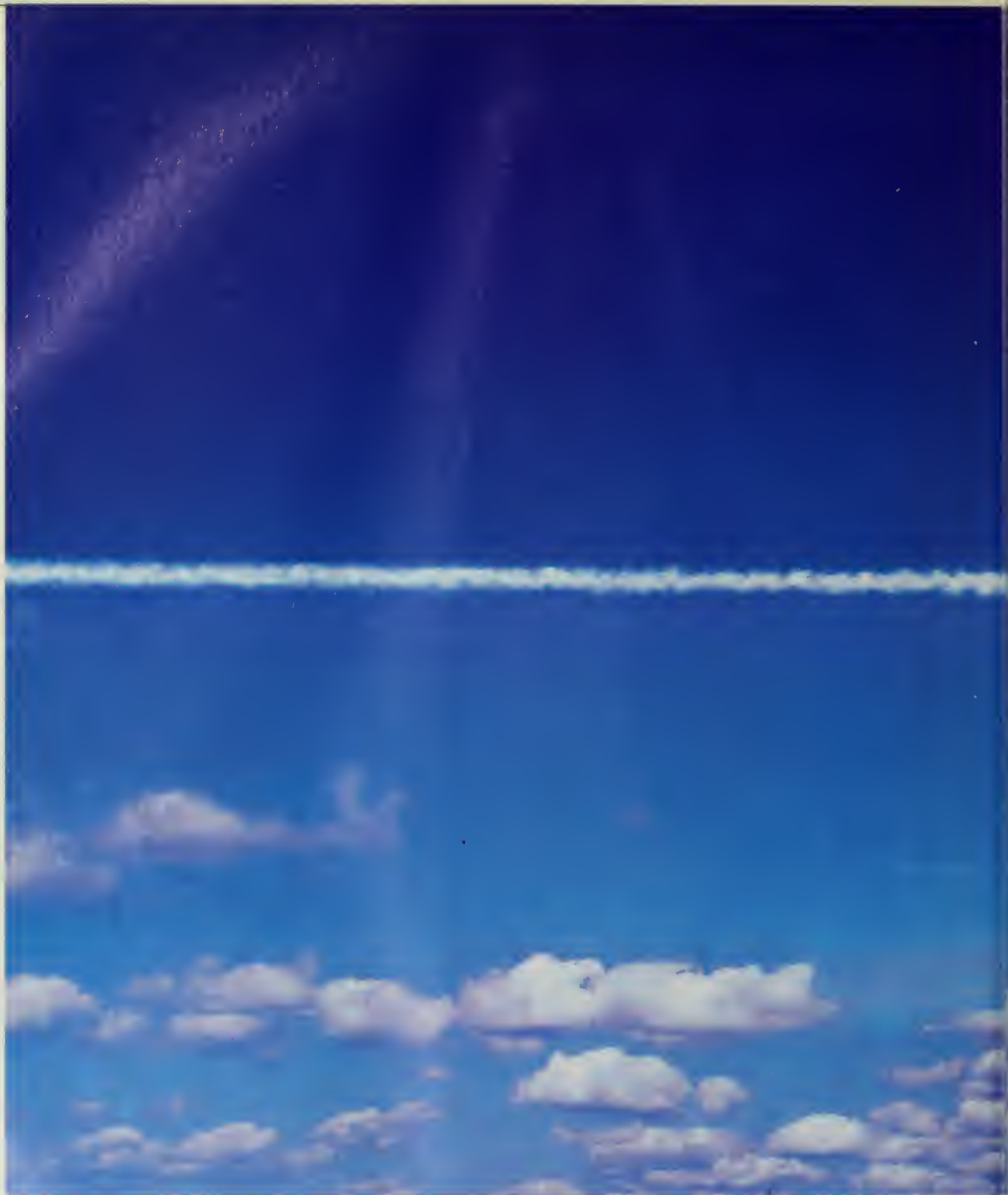
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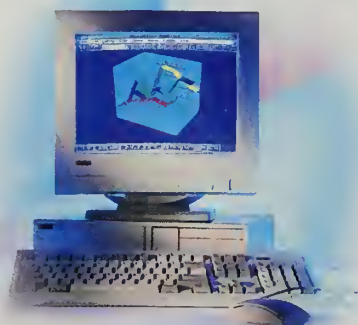
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What do you do if you are nervous about the stock market but still want the long-term advantages that stocks offer? Here's a suggestion.

Get with value

By Eric S. Hardy

THE STOCK MARKET is a little cheaper than it was a year ago, but it is still not cheap. At a recent 460, Standard & Poor's 500 stock index is trading at 17 times trailing earnings, versus a more normal 14 times. The average stock trades at a price/book value of 3.1 and at 34 times the dividend it pays. Both ratios are at the expensive end of their historical ranges.

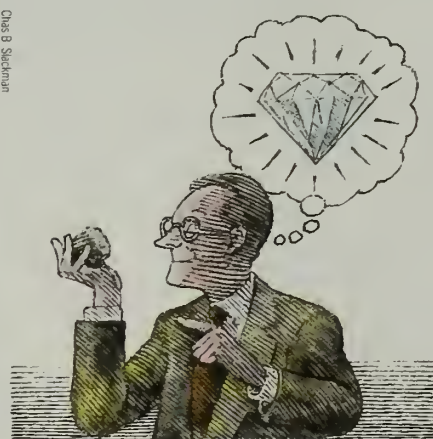
Does this mean it's a good time to sell your stocks? Maybe, but we don't know anyone who is really good at market timing, and we do know that people who hold stocks generally do better than people who sit on bonds or savings accounts. So what's the cautious investor to do?

May we suggest value stocks? We mean stocks trading at a (relatively) low multiple of earnings, book value and/or dividends. These stocks may not be dirt cheap, but they are cheap relative to the market as a whole. If the market cracks, there's a good chance they won't drop as fast as the market. If the market continues to rise, a lot of

people may decide to buy value stocks—and their prices will rise.

Some pundits, our own David Dreman prominent among them, think these cheap or value stocks are investments for all seasons. There's a lot of argument over that, but one thing is pretty clear: If the market drops, well-chosen value stocks will likely fall less steeply than the others.

Cheap companies are, of course,



cheap for a reason. Perhaps the analysts have decided that they lack growth prospects or an edge over competitors. Perhaps they were recently hit with bad publicity or an earnings hiccup. Perhaps their earnings are cyclical and the analysts fear that the cycle is about to turn down.

That's where judgment comes in. If the analysts and the institutions have overreacted—as they often do—the stocks may be bargains. Right now insurance stocks may be an example. They've come through a rough period and their prices reflect that. But their fortunes seem to be looking up and the share prices don't yet reflect the improvement.

Denis Laplaige, a mutual fund manager at McKay Shields Financial, points to Travelers. It has a price/earnings ratio of only 8 and has strong cash flow, here meaning net income plus depreciation, amortization and other noncash items. Travelers trades for 30% over tangible book value.

In search of more stocks like this, we screened the Market Guide database of 6,600 stocks to create three groups of value stocks. The first group (below) lists firms trading at no more than 10 times trailing earnings or expected earnings for the current fiscal year.

The second group (*see p. 66*) lists companies trading at no more than 30% above tangible book. They also have cash and equivalents equal to at least 10% of their common equity.

The third group lists 10 nonutility

Valuable stocks

Company/business	Recent price	Price divided by				Dividends per share			Debt as % of equity ¹	Cash as % of	
		earnings	1995 est earnings	sales	tangible book	current yield	payout ratio	5-year growth		book value	stock price
Low price/earnings multiples											
Advanced Micro Devices/semiconductors	25%	8.4	7.1	1.2	1.5	none	—	—	9%	33%	23%
J Baker/shoe stores	15½	8.6	7.5	0.2	1.0	0.4%	3%	0.0%	104	1	1
CTL Credit/consumer finance	9%	6.9	5.7	0.7	0.8	none	—	—	22	4	5
Elco Industries/fasteners	16½	9.4	8.5	0.3	1.4	3.6	31	1.6	69	1	1
Fieldcrest Cannon/textiles	23%	8.6	8.1	0.2	1.0	none	—	—	155	2	2
Ford Motor/autos & trucks	28%	6.9	5.3	0.2	1.4	3.6	20	-7.0	584	46	34
Intl Shipholding/water transport	19%	9.2	8.2	0.3	0.9	1.0	10	14.9	199	27	37
Oxford Industries/shirts & blouses	20%	8.9	7.4	0.3	1.4	3.5	31	6.7	63	2	1
Ryland Group/home building	14%	9.0	7.8	0.1	0.8	4.0	36	2.5	135	10	13
Travelers/insurance; brokerage	33%	8.2	7.5	0.7	1.3	1.8	14	29.4	152	15	11

¹Total debt.

What is value? It depends on who is beholding it. But here are three ways to find it.



The sleek shape of the new LS 400 has a thorough disregard for the elements. (As demonstrated by its aerodynamic coefficient of drag.) And a thorough respect for its passengers. (As evidenced in an additional 5 cubic feet of cabin space.) An entire new LS.

IT'S THE MOST
AERODYNAMIC CAR
SOLD IN AMERICA.

(Where did our engineers get their second wind?)

rate.
ent
efficient of drag of 0.28.) Not to mention the utmost
LS 400. A new journey. Inquiries, 800-872-5398.

 **LEXUS**
The Relentless Pursuit Of Perfection.

Valuable stocks

Company/business	Recent price	Price divided by				Dividends per share			Debt as % of equity ¹	Cash as % of	
		earnings	1995 est earnings	sales	tangible book	current yield	payout ratio	5-year growth		book value	stock price
Low price/book ratios											
Comdisco/computer leasing	22	9.7	8.8	0.4	1.2	1.6%	16%	5.7%	253%	14%	11%
Data Systems & Software/defense software	5½	10.6	10.0	0.5	1.0	none	—	—	50	64	61
Nichols Research/defense services	12½	11.9	10.8	0.5	1.3	none	—	—	9	34	26
Psicor/medical services	10¼	10.0	8.8	0.5	1.2	none	—	—	3	16	13
Peerless Mfg/gas transmission equip	11	7.5	6.1	0.5	1.3	4.5	34	0.8	0	25	19
SkyWest/regional airline	11¾	6.7	6.6	0.6	1.0	0.7	21	30.3	21	52	53
SofTech/custom software	5¾	10.5	NA	0.6	1.0	none	—	—	0	27	28
Standard Register/business forms	17¾	11.2	9.8	0.5	1.1	3.9	43	6.4	5	14	13
Thiokol/aerospace	27½	8.9	9.0	0.5	1.3	2.5	22	22.7	30	18	14
URS/engineering services	5½	8.4	7.9	0.2	1.3	none	—	—	27	29	26

High, sustainable dividends

American List/student mailing lists	16¾	15.0	NA	5.5	5.2	4.8	18	42.8	19	69	13
Computer Language Rsch/tax software	10¾	13.0	NA	1.4	2.6	3.7	41	18.5	1	47	18
Ennis Business Forms/business forms	12½	10.2	8.9	1.5	3.4	4.6	47	11.6	1	37	11
John H Harland/check printing	20	12.0	10.8	1.2	6.8	4.9	58	10.1	65	6	2
Hilb, Rogal & Hamilton/insurance agencies	11¾	14.5	12.6	1.3	6.5	4.7	58	38.0	12	76	31
Merrimac Industries/electronic equipment	7¾	9.0	NA	1.0	1.1	5.2	44	24.6	0	35	34
Minuteman Intl/cleaning equipment	10	12.7	NA	0.9	1.5	4.0	36	41.1	0	11	7
Supervalu/food wholesaling	24¼	33.2	9.6	0.1	2.4	3.9	31	12.0	132	0	0
Upjohn/pharmaceuticals	31¾	10.1	12.2	1.5	2.6	4.8	48	13.1	24	17	6
Howard B Wolf/women's apparel	6¾	9.0	NA	0.5	1.1	4.7	37	13.3	0	16	15

¹Total debt. NA: Not available.

Sources: Market Guide database; IBES, Inc. via OneSource Information Services.

The first ten companies are cheap in relation to tangible book value.

The bottom ten have above-average yields.

stocks with high dividend yields—at least 3.5%—and an ability to maintain or increase the dividend. All have minimum five-year dividend growth rates of 10% while their payout ratios (the percent of earnings paid out in dividends) didn't exceed 60% during the latest four quarters.

These three factors—low P/Es, low

premiums over book value and high dividend yields—could help keep some stocks from being clobbered in a bear market. Given time, these same factors could attract takeovers, stock buybacks or just plain higher prices for the stocks involved.

Best strategy is to buy a small bundle of these stocks. Some may be justifi-

ably low priced, and you don't want to get stuck in those. As a group, they are cheap, yet the companies own good assets and have good earnings. These appear to be excellent stocks for nervous but patient investors. If you prefer mutual funds, the table below lists a few good no-load funds that lean toward value stocks.

Safety-net investing

Performance UP DOWN —markets—		Fund	Annualized total return			Assets 9/30/94 (\$mil)	Weighted average P/E	Median market cap (\$bil)	Annual expenses per 100
			6/83 to 11/94	last 12 months	5-year				
B	B	Dodge & Cox Stock Fund	14.5%	6.8%	10.3%	\$531	14.0	\$12.8	\$0.62
■B	■C	FAM Value Fund	—*	1.9	11.4	203	13.9	1.1	1.39
C	■B	Gradison-McDonald Established Value	—*	0.8	7.6	259	14.3	7.9	1.22
B	B	Mutual Series-Beacon	13.3	12.4	11.6	1,931	12.6	5.7	0.73
A	C	Neuberger & Berman Guardian Fund	13.5	5.3	11.3	2,354	15.1	11.6	0.81

■ Fund rated for two periods only. * Fund not in operation or did not meet asset minimum for full period.

These funds invest primarily in value stocks—those trading at low multiples of their earnings, dividends, cash flows or book values. It is highly likely, albeit not assured, they would be damaged less severely in a market crash than a high-flying growth fund.



Try explaining to customers like these that their bowls are empty because your data network went down.

Reliability. In a word, that's why Hill's Pet Nutrition chose AT&T data communications services.

After all, Hill's wouldn't have such a loyal customer following if it weren't for the trusted quality of their pet food. So it's only natural that Hill's would insist upon a trusted data network.

One tiny problem with Hill's data network could cause big distribution delays. And that could mean empty bowls for more than a few Mutleys and Muffins.

But that's not likely to happen. Because only AT&T can give Hill's a hassle-free network that seamlessly connects all of their far-reaching sites.

With AT&T's ACCUWANSM Services, all of the time-consuming details of implementing, managing and maintaining a wide-area network are handled by AT&T specialists. Kind of like having a very smart watchdog.

So Hill's can concentrate on more important aspects of their business. Like feeding the Boomers and the Bingos of the world.

► To find out how your data network can lead a long, healthy life, call 1 800 332-7FAX, Ext. 600.

But call today. You wouldn't want your data network to keep any customers waiting.



AT&T For the life of your business.SM



Lufthansa could have called on any bank to help them further privatize in October, 1994. But then, Lufthansa doesn't like turbulence. So they called their preferred "Tower" to arrange and lead the deal: Dresdner Bank.

Needless to say, they arrived on time. The landing was exceptionally smooth. Employing a dynamic network that stretches

This is the tower called for a bot

across 67 countries, we make it our business to help other businesses prosper – worldwide.

In case you haven't had a chance to get to know us in the last 122 years, it's time you did.

We're not only the second largest bank in a country known for banks – Germany – we're a Universal Bank: We have the right people (i.e. 46,500 specialists). We have the



When it chose
to privatize,
Lufthansa called
Dresdner Bank
for guidance.

Lufthansa takeoff.

Every fifth DM earmarked
foreign trade with Germany
crosses our "borders" first). And
have the wherewithal to meet
objectives. Moreover, we
in nearly a 100 languages.

Our vast resources
and experience can
help you tap a
world of opportu-
nities. Whether they
are in the up-and-coming markets
of Eastern Europe. Or right in your
own backyard: North America.

Call "The Tower" to avoid
financial turbulence. Lufthansa did.
And now their tickets aren't the
only first-class investments they
offer. Together we can find ways
to help you start, expand or en-
hance your business. Just phone
(212) 574-0 100.



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Americans could dominate the market for farm-raised salmon, but the U.S. has shot itself in the foot and let Chile walk away with a booming industry.

"Real fish don't eat pellets"

By Nina Munk

WITH THE SUREFOOTEDNESS of a tightrope artist, Ivette Ronc steps along a series of shaky platforms suspended over Chile's Lake Llanquihue. In the chilly water below are 72 submerged pens, each containing 2,500 tiny Atlantic salmon fry, fresh from a nearby hatchery.

Seven months from now Ronc's fish will be trucked from the lake to saltwater pens in protected fjords along the coast of southern Chile. There they'll be coddled for another 17 months until, weighing at least 9 pounds each, their gills will be split, their blood drained and their meat processed and airlifted to grace tables in New York and Los Angeles and Chicago and Tokyo.

From nowhere a few years ago, Chile has emerged as the world's second-largest producer of farmed salmon, after Norway. Production hit about 165 million pounds last year, worth \$335 million, a healthy addition to this fast-developing nation's exports, and continues to grow. "We can easily reach 220 million pounds [by 1997]," boasts Guillermo Soto Giordani, general manager of Santiago-based Unimarc Trading. Unimarc expects to sell \$35 million of farm-raised salmon this year, most of it through a joint venture with Japan's Maruha Corp.

U.S. fishermen are outraged. A bumper sticker on the back of a pickup truck in Anchorage, Alaska—the world's only region with really big stocks of wild salmon, and still the world's largest producer—snaps: "Real fish don't eat pellets."

The reference is to the pellets containing high-protein feed that Chil-

ean aquaculture engineer Ronc and others like her supply every 10 to 15 minutes to the salmon fry, along with medicated baths as a vaccine against disease.

In the wild only about a tenth of these fry would make it; under Ronc's supervision the survival rate is 90%. "I am like a nurse," says Ronc.

Nurses for fish? Yes, but that's not really what the Alaskan fishermen are sore about. The development of farmed salmon has almost doubled the global supply of the fish while chopping Alaska's share of the world salmon market from 46% to 32% in the past decade. In Japan, where over two-fifths of the world's salmon is consumed, Alaska's share has dropped from 85% to 55% since 1987.

With more supply, prices fall. Alaska's prized sockeye salmon hit an average of \$2.35 a pound at the dock

RIGHT:
Ivette Ronc
inspects her
charges on
Lake Llanquihue
**These coddled
fry are fed
every 10 to 15
minutes, receive
medicated baths
and have their
netted pens
changed weekly.**

BELOW:
Processing salmon
in Puerto Montt, Chile
**From there,
it's airlifted to
markets around
the globe.**





in 1988, but last year went for about 89 cents a pound.

It also miffs the Alaskans that Chilean salmon is available fresh year-round while Alaska's traditional salmon season is June to August. Says John van Amerongen, editor of the Seattle-based *Alaska Fisherman's Journal*: "A guy who used to just fish in the summer for salmon is now forced to go out nine months of the year. That's hard on a guy, and dangerous."

Why not farm salmon in Alaska? Good question. Answer: Prodded by the powerful commercial fishing interests, in 1987 the Alaska state legislature first placed a moratorium on and then banned outright the farming of any creatures with fins. Score one for Chile.

Chilean salmon farmers got another boost in 1990, when fish farmers in Maine filed dumping charges against Norwegian salmon farmers. Washington slapped duties averaging 24% on Norway's salmon; total imports of Norwegian salmon crashed from over 30 million pounds in 1989 to 3 million in 1991.

Rushing to replace the Norwegians, the Chileans increased their salmon exports to the U.S. from 4.6 million pounds in 1989 to 26 million pounds two years later, and then to 50 million pounds in 1994.

Washington State could, if allowed, provide tough competition for the Chileans. Washington Fish Growers Association Executive Director Daniel Swecker says salmon farming in

Puget Sound waters should be a booming business. It isn't because the aquaculture industry has been stopped in its tracks by environmentalists and homeowners who don't want their view of Puget Sound disturbed by salmon pens.

In their efforts to obtain a saltwater salmon farming permit Swecker and his wife, Debby, spent \$500,000 and five years battling the Sierra Club Legal Defense Fund and a shoreline residents association calling itself the Marine Environmental Consortium. Still, no salmon.

"Americans, I think, do not favor free trade," says Francisco Ruiz Tirado, a director of the Association of Chilean Salmon & Trout Farmers. Touché!

What's the fastest-growing sector in advertising?
Hint: You can drink coffee out of it.

As long as it's free...

By John R. Hayes

LOOKING TO BREAK through the media clutter? Lou Weisbach may have the answer for you. Weisbach, 46, will put your logo on *anything*. Coffee mugs, paperweights, luggage tags, bottle openers, baseball caps, fishing lures, even condoms—someone at the Cook County Public Defenders Office once ordered 250 from the Niles, Ill.-based HA-LO Industries.

Weisbach does a lot of this logo-promoting, about \$100 million worth this year. He's the kingpin of sorts in the fastest-growing sector in the advertising business—corporate giveaways. Companies currently spend more than \$6 billion a year sending out this kind of stuff, up by half in five years. As a medium, that's bigger than outdoor billboards and

catching up to magazines.

The giveaway boom even survived the 1991 bloodbath, when the sagging economy prompted all sorts of companies to slash their ad budgets. That's because that personalized pen knife you just received from GM or Miller Beer gets funded out of the company's promotion budget, not its ad budget, so a lot of coffee mugs flew



Lou Weisbach,
chairman
of HA-LO
Industries
**A man who
knows his
coffee
mugs and
paperweights.**

under the budget-cutters' radar when the ad crunch came. Then, too, coffee mugs are cheap: At HA-LO the average order for ad specialties runs about \$1,500, so a brand manager's decision to pass out a few thousand key chains doesn't attract much attention.

Corporate freebies first began appearing in the late 19th century as small-town newspapers and print shops looked for new business to keep their presses rolling. Horse blankets, flyswatters, buggy whips, playing cards, yo-yos—anything that would take ink—got squeezed into the flat-bed presses. In the 1940s and 1950s St. Paul, Minn.-based Brown & Bigelow Co. created calendar giveaway promotions for John Deere, Ford and Pillsbury featuring the work of Norman Rockwell and Maxfield Parrish that were as well known then as today's most prevalent TV campaigns.

Weisbach, a former Chicago high school basketball coach, got into the business by borrowing \$3,500 from his mother in 1972 to sell calendars to butchers and beauty shops.

His Nasdaq-traded company, HA-LO (for Lou and his brother Hal) Industries is the best known of the 12,000 distributors in the corporate premium business. Weisbach has come up with ceramic vases shaped like bags of popcorn for Cineplex Odeon and temperature-sensitive coffee mugs for Kraft, which wanted to promote the new packaging on its parmesan cheese in 1991. Heated by the coffee, the mug's image changes from the old label to the new one.

There's a basic problem, of course. How many coffee mugs and calendars can anyone use? The trick is coming up with new gimmicks—logo-engraved wine bottles or disposable cameras that print a company's name on each photo. "Most of the world will take anything if it's free," says Weisbach.

Maybe, but some things no one will give away. A recent disappointment: death clocks. These threatening little items, imprinted with the name of the giver and the recipient, tick off the dwindling days of the recipient's life span based on actuarial tables. Weisbach thought they'd make great gifts for employees—a reminder not to waste time—but employers found them too morbid. Says he: "We couldn't sell a single one."

To sell advertising, Comedy Central started giving it away. Impressed with the results, the freeloaders became paying customers.

Mr. Hatfield, meet Mr. McCoy

By James M. Clash

UNDER COVER OF DARKNESS, Viacom's MTV Networks, Inc. Chief Executive Thomas Freston, 49, dispatched his men five years ago to the Greenwich Village neighborhood where dwells Time Warner's HBO Chief Executive Michael Fuchs. They plastered huge logos promoting MTV's new HA! comedy channel all

over the block where Fuchs lives.

"It was childish, no-good stuff we like doing at MTV," recalls Freston. Fuchs, 48, jokes: "I didn't think those guys had the guts to come down to my neighborhood."

Both executives needed a good laugh. Launched in November 1989, HBO's Comedy Channel had only 6.9



Rival chief executives Tom Freston (MTV) and Michael Fuchs (HBO)

"I like Tom," says Fuchs, "but we haven't double-dated or anything."



Comedy Central Chief Executive Robert Kreek on the set of "Politically Incorrect"
On his way to 35 million viewers and first-time profits.

million subscribers by the end of its first year, far short of the break-even target of 30 million. It offered 24 hours of original skits, standup spots and clips from old movies. But the material was uneven and often thin.

MTV's HA! was doing even worse. It had only 5.8 million subscribers and even skimpier material: reruns of stuff like *I Love Lucy*; *Car 54 Where Are You?*; and *That Girl*.

Both channels were bleeding, and had spent some \$50 million each to launch. Cable operators didn't want both. Some wanted neither.

So Fuchs and Freston buried the hatchet. In a series of meetings spread over six weeks in the fall of 1990, the former rivals hammered out a joint venture. HBO and Viacom agreed to share costs and profits 50-50. They brought in Robert Kreek, 46, a veteran of two decades in television, from Fox to head up the venture, which

premiered on Apr. 1, 1991.

Right off Kreek cut the staff by 40%, to 110. The bigger challenge was remixing the programming. "I had 24 hours of one flavor, 24 of the other," he says. "I had to put 48 hours into 24." Kreek began dumping stale shows like *Love American Style* and *Rhoda* that he inherited from HA!, marginal and expensive original shows like *Onion World* and *The Higgins Boys & Gruber* from the Comedy Channel.

Increasingly, Comedy Central used original programming rather than reruns. One recent example: *The Juice Is Loose*, a simulated TV news story about O.J. Simpson breaking out of jail, replete with correspondents and fake footage. It's not everybody's idea of funny, but it got lots of attention. *Politically Incorrect*, an irreverent half-hour talk show, has gained a cult following.

Pleased with the new programming, longtime holdout Tele-Communications, Inc., the nation's largest cable operator signed on with 4 million subscribers. By year-end 1991 Comedy Central had almost doubled its subscribers, to a respectable 2.2 million.

Viewers it now had. Advertisers it didn't. Comedy Central was still losing about \$1 million a week. It boasted the highest-income demographics in television (cable or network)—52,000 households in the hard-to-reach \$50,000-plus-per-year category. Now advertisers needed to be convinced that comedy was the best background for their message.

In a bold move to hook new advertisers, Kreek started giving away free air time to big-name companies. Coca-Cola got free publicity and advertising time during the 1992 Summer Olympics. Pleased with the results, Coke signed on as a paying client. Kreek went even further for Dos Equis beer and Pilsner.

He wrote, produced and filmed irreverent, hip new spots for both companies—for free. Both outfits soon became paying customers.

The freebies worked. Ad revenue last year reached \$34 million and contributed 57% of total revenues. Those numbers are up dramatically from 1991, when the \$8 million in ad revenues represented only 45% of total revenues.

The red ink is disappearing, too. Losses were down to just \$16.5 million* for 1994, and this year, on a projected base of 35 million viewers, Comedy Central should earn close to \$1 million on total revenues of \$79 million.

But if Time Warner and Viacom hadn't agreed to stop knocking heads and begin working together, both would still be losing money. The market just wasn't big enough to support two channels.

Imagine A COUPLE OF SWEDISH ENGINEERS

AND A COUPLE OF GERMAN ENGINEERS

DECIDE TO GET TOGETHER FOR *dinner.*

AND THE SWEDISH ENGINEERS START

TALKING ABOUT SAFETY AND THE GERMAN ENGINEERS

TALK ABOUT THE JOY OF DRIVING.

WHAT DO YOU SUPPOSE WOULD *happen?*

Cor



Come
On h

mill
first
targ
hou
and
mat

M
had
ever
like
You

B
had
laun
botl

Se
hate
over
form
vent
shar
brou
an
Fox



Probably THE NEW

960 FROM VOLVO



960 is shown with optional wood trim. *Whichever comes first. Limited warranty. See dealer for details. **On-Call® is offered in cooperation with Amoco Motor Club. © 1994, Volvo Cars of North America, Inc. Drive Safely is a trademark of Volvo Cars of North America, Inc.

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Drive safely.

VOLVO

Democrats accuse Republicans of "trickle-down" economics. So they give us trickle-through economics, with bureaucrats and experts getting a generous cut.

A dishonest slogan

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

IF THERE WERE A PRIZE for the most dishonest phrase in politics, the competition would be fierce and the outcome very uncertain. However, my nomination would be the phrase "trickle-down economics."

The trickle-down theory is supposedly the notion that the way to benefit the poor is to have the government provide benefits to the rich, which will then trickle down to the poor. But there is simply no such theory—not in Adam Smith, not in John Maynard Keynes, not in Milton Friedman. Not in anybody.

My specialty within economics is the history of economic theories—but here is no history of any such theory.

Still, no political campaign is complete without liberals accusing conservatives of applying trickle-down theories to benefit the rich, instead of having the government give benefits directly to the poor. With Republicans likely to raise the issue of reducing the capital gains tax in the next Congress, Democrats will no doubt cry that this is a "tax break for the rich" based on "trickle-down economics."

Let's go back to square one. There is no investment income to tax until after an investment has been made

and people hired—and after it all works out successfully, which is by no means guaranteed. In short, the benefits to investors come after the benefits to those they employ, not before.

When investments finally pay off, perhaps years later, it would make no sense to call the eventual profit simply income for the year in which it is received. That is why capital gains are taxed differently from ordinary income.

Often there is no real capital gain at all, except on paper. If you bought an asset back when the price level was half of what it is today, and you sold the property for twice what you paid for it, then you have just kept up with inflation. If you sell it for 50% more than you paid for it, you have actually lost part of the real value.

Even when your capital "gain" does not keep up with inflation, the government still taxes you on it.

The welfare state is about more power for government, not about getting more money to the poor.

Moreover, these kinds of "gains" go into the statistics supposedly showing that "the rich are getting rich and the poor are getting poorer."

Despite tilting against the windmills of a nonexistent trickle-down theory, the last thing the liberals want to do is to give benefits directly to the poor. They may not have a trickle-down theory, but in practice they make sure that any benefits to the poor trickle down through layers of bureaucracy and are siphoned off to pay the salaries, consulting fees and research grants of

all sorts of "experts" with degrees.

That is why studies have shown that every man, woman and child in America could be raised above the official poverty level by direct transfers of money, at less than half the cost of all the government's antipoverty programs. Lots of people who are not poor by any stretch of the imagination have to be taken care of out of antipoverty money.

Proposals to replace public housing programs, "retraining" programs and other social experiments with hard cash given directly to the poor have repeatedly run into a buzz saw of opposition from liberals. They don't mind more money being given to the poor—or to anybody else—but not at the expense of programs that employ bureaucrats and "experts."

These anomalies are not accidental. The welfare state is ultimately not about getting more money into the hands of the poor but about getting more power into the hands of government. In program after program, the poor are to benefit only insofar as they allow themselves to be directed and manipulated by their self-anointed saviors.

When people get private sector jobs instead of government handouts, the situation is completely different. Capital gains tax reforms are needed simply to stop the government from discouraging the investment that provides employment.

It is nonsense to call this "trickling down" because the investment has to happen first, and workers have to be hired first and paid first, before the investor has any hope of reaping any gains. Since capital gains come last, not first, they do not "trickle down."

Obviously, the higher the capital gains tax rate, the less the incentive to invest and hire. If you want more Americans employed, you don't punish people for employing them. Otherwise, the investors have every incentive to invest their money in some other country that doesn't have such high capital gains taxes—or doesn't have capital gains taxes at all.

But the liberals are so politically dependent on class warfare, and on their own role as saviors of the poor, that they are very slow to admit that there wouldn't be so many poor for them to save if there were more jobs created by the economy. On the other hand, if they are not playing the role of saviors of the poor, how are they to get re-elected? ■

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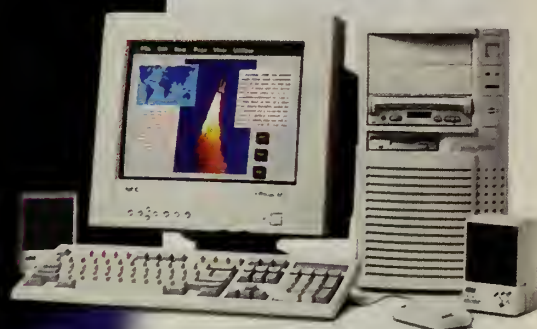
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Was Will Harris just unlucky in his oil trading?
Or did the money he borrowed from Chase Manhattan
find its way into the international arms trade?

Oilman, trader, banker, spy

By James R. Norman

SITTING IN JAIL just north of New York City, awaiting federal prison, is Roy William Harris. No common crook is he. Harris, 41, was once a star oil trader for Salomon's Phibro Energy unit, where he could have been a contender for the top job. Now he stands convicted in one of the biggest bank frauds in recent memory.

His crime: lying to a bank group led by Chase Manhattan to disguise huge oil trading losses racked up by Arochem Corp., his private refining company. The banks lost almost \$200 million when Arochem went bust in early 1992. Ignoring advice from his first lawyer, Harris refused to cop a plea to get a short prison stint.

Instead, he went on trial and was found guilty by a jury in December 1992 on 20 counts of bank or wire fraud, plus one count of money laundering. In December Harris got 15½ years as a criminal "kingpin." He is appealing.

On the surface this looks like a case of a luckless speculator stiffing the banks for his losses—like a cashier who robs the till to play the horses and loses. In fact, what came out in his trial is just the tip of the story. Hanging over Arochem and Harris is a dark cloud of unanswered questions—and the evil face of Saddam Hussein. Some mysteries that still linger:

Did bright-guy Will Harris really lose all that money, or is much of it stashed in secret bank accounts?

If Harris did divert the money, was it simple theft? Or did he intend to put the money back after financing arms

trading with Iraq?

What did his bankers know? It should have been obvious he was doing far more trading than needed to hedge inventories at his small refinery. But did they know where the money might be going?

This much is certain: The defrauded banks have not found that \$200 million. Nor have they tried very hard to trace the tangled web of trading, sweetheart deals and kickbacks Harris may have been involved in. Chase still insists the money was just lost on oil trades.

Even more perplexing is the failure of the banks and the prosecutors to probe Will Harris' many business dealings with his boyhood chum David Bay Chalmers Jr., who runs a company called Bayoil (U.S.A.) Inc.

At the same time Harris started wheeling and dealing with Arochem, in 1987, Chalmers' Bayoil became an important middleman in a massive Iraqi oil-for-arms network involving the notorious Chilean weapons maker Carlos Cardoen. There also appears to be a link between Bayoil and Bay Industries, fingered in congressional hearings as a front for Iraq's nuclear, chemical and biological weapons program. The big question: If, as we suspect, Harris was skimming money from Arochem, was it funding Chalmers' arms trade?

That arms flow needed financing but was hardly the kind of business a U.S. bank would want to show on its books—witness the machinations of the Atlanta branch of

While the good times rolled, Roy William (Will) Harris partied hard and lived the good life, including periodic cruises on Long Island Sound with Arochem's staff. By 1991, however, Arochem was a sinking ship.



he Banca Nazionale del Lavoro to disguise \$4 billion in Iraqi arms loans as agriculture and industrial credits.

There is no question that Bayoil and Arochem were closely connected. Harris' Arochem and Chalmers' Bayoil used the same Stamford, Conn. office building when they started in 1987. They shared a secretary who is now Harris' fiancée. Bayoil once even claimed to own Arochem.

Chalmers and Harris have been close friends since they were boys together in Kansas. Chalmers has paid most of Harris' \$500,000 in legal bills and gets copies of all the filings. He helped pick Harris' current lawyer: New York attorney David Lewis, whose past clients include ex-Panama dictator Manuel Noriega and Edwin Wilson, the ex-CIA man who went to jail for supplying arms to Libya.

Harris isn't talking. Lawyer Lewis wears his client is broke: Harris' \$4 million Greenwich, Conn. mansion has been foreclosed. Chalmers, 41, is also num. The lanky, cigar-smoking oil trader lives in a Houston mansion behind security walls watched by guard dogs.

The Chalmers link is important. His family has deep roots in government and the oil business. His namesake great-uncle, Charles Bay, founded Bay Petroleum in 1935 and then held a top post in the CIA predecessor, the Office of Strategic

Services, before becoming ambassador to Norway in 1946. Chalmers' father, David Bay Chalmers Sr., was an executive at Bay Petroleum; when Bay died in 1955, the company was sold to Tenneco. Later Chalmers Sr. launched Coral Petroleum and gained prominence as an oil trader, spending lots of time in the Middle East. In 1980 he pleaded guilty, along with Coastal Corp. Chairman Oscar Wyatt Jr., to charges related to violating federal oil price controls. Wyatt later had the conviction overturned on a technicality. They paid \$20 million in penalties for "daisy chaining" old oil into new through a maze of trades.

Coral went bust in 1983. But Chalmers Sr., now 70, still lives in grand style in Las Hadas, Mexico, and his marital misadventures have recently made news.

David Chalmers Jr. learned the oil trade at his father's knee. After Coral failed, the young Chalmers went to work trading oil for his father's old friend Edward Carey, brother of former New York Governor Hugh Carey. It was while working for Carey Petroleum in 1987 that Chalmers Jr. got into the wonderfully lucrative Iraq oil-for-arms trade—for his own account, behind Carey's back.

Carlos Cardoen, the Chilean arms maker, was using ingredients bought in the U.S., supposedly for "mining explosives," to build boatloads of cluster bombs. He shipped them to Iraq during and after the 1980-88 Iran-Iraq war. Drained of hard currency by then, Iraqi dictator Saddam was paying with oil. Cardoen needed someone to market that for him. Enter Chalmers Jr.

Court records show that Chalmers brokered about twenty 1-million-barrel tankerloads of Iraqi oil for Cardoen—right up until Saddam invaded Kuwait. This was not the most savory of businesses, and Chalmers extracted a fat fee for his services—\$2 a barrel; the standard fee for brokering oil is more like a nickel a barrel or less.

Apparently Chalmers was relentless in his demands for profits. John Pastis, 56, a onetime Atlanta drug informant now working at his son's building contracting firm, has been in and out of the oil trade over the past 20 years. Pastis says he was in Chalmers' suite in a posh Vienna hotel cutting a deal for Nigerian crude during a meeting of OPEC ministers there in December 1988. Who should show up but the suave Cardoen. Chalmers and Cardoen retired to another room, and Pastis recalls a desperate-sounding Cardoen shouting: "What's the matter? Isn't \$2 a barrel enough for you? It takes money to build cluster bombs!"

Pastis got nervous. As a drug informant he was used to danger, but the illicit arms trade is even rougher than the drug business. "Don't worry," Pastis says Chalmers assured him later. "This [deal] has the full approval of the U.S. government."

Pastis bought the explanation: It was an open secret that until the invasion of Kuwait, the U.S. was tacitly encouraging arms sales to Saddam to help create a bastion against the mullahs running Iran. Yes, there was officially a U.S. embargo on arms going to either Iran or Iraq, but Bayoil's middleman role for Cardoen was technically legal since

**"Don't worry,"
Chalmers said
to Pastis.
"This [deal]
has the full
approval
of the U.S.
government."**

Harris' boyhood pal, oil-for-arms trader David Chalmers Jr., wouldn't talk to us. This was as close as we got—his walled Houston mansion.



Chalmers never took possession of any bombs. (Cardoen is under indictment in Miami on charges of falsifying export documents to cover a shipment of zirconium for use in bombs, but has not been extradited from Chile.)

In fact, court documents show Chalmers was far more than just a well-paid broker of Iraqi oil. At one point in 1988 he was floating plans for a \$3 billion petrochemical project in Iraq. This was the infamous PC2 complex designed by Bechtel but never completed. Besides ethylene, PC2 would have made key ingredients for mustard gas and explosives.

And then there is Bay Industries, Inc., identified by Treasury agents as an Iraqi front company at the time of the Kuwait invasion. Are the two Bays connected? Both Ed Carey and John Pastis claim that they are. They say they've heard that Bay Industries was launched in the early 1980s and that Chalmers Sr. was involved with it. Pastis says he once met Chalmers Jr. and Bay Industries President Mansour Wadi in London as the two were waiting for a table at a restaurant.

What about Coastal Chairman Oscar Wyatt, fellow trader to the elder Chalmers? He has had nothing to do with Bay Industries, he says. But he has had dealings with Saddam. Over the years he has been a significant buyer of Iraqi crude. In a much-publicized mercy mission in December 1990, just before the Allied air war, Wyatt flew to Baghdad and helped win the release of 22 Western hostages. No business, said Wyatt, just humanitarianism. But he later boasted to *Vanity Fair* magazine about the many favors he did for former CIA head William Casey.

It would seem sensible to investigate whether there were links between Chalmers Jr.'s arms trading and Harris'

huge losses in oil trading. But neither the victimized bank nor the federal prosecutors seem to have bothered. Why not? Here's our hypothesis:

It takes big bucks to finance armament trading, especially with a warmonger like Saddam, who could pay only in oil when the arms were delivered. You can't just go to a bank and say you wanted to finance murderous weapons for a bloody dictator. But you could borrow money for something else and then divert it. The international oil market, involving billions of dollars in trading every day, offered a convenient venue.

Was it merely coincidence that at the very same time Chalmers got rolling with Bayoil and Cardoen, Harris quit Phibro to start Arochem? We doubt it.

Arochem was set up ostensibly to buy a small, potentially valuable Puerto Rican benzene refinery. Harris bought the 80,000-barrel-a-day plant for about \$10 million, then put in about \$40 million to repair it. The refurbished refinery went

into operation in 1988, but for Harris, cracking towers were almost incidental. His main activity was trading in oil—buying and selling it in huge quantities. Harris traded both futures contracts and "wet" oil—that is, oil cargoes in transit—in private off-market deals. One of the names frequently appearing on the other side of Harris' trades was David Chalmers Jr.'s Bayoil.

Chase's commodity lending team—since departed—considered Harris an excellent risk. Chase kept a third of the \$245 million it lent Arochem on its own books and syndicated the rest to Swiss Bank, Bank Brussels Lambert, Banque Indosuez and Finland's Skopbank. Chase thus extended more than twice the financing needed for a refinery Arochem's size. Why not? Arochem was a gold mine for

"No one has covered themselves with glory," admits a Chase lawyer.

fees. Chase got a \$5 million upfront fee for arranging the credit, and the banks each got their share of lucrative letter-of-credit financing for Arochem. If Arochem lost money, the banks figured, they could get most of their money back by foreclosing on the refinery. The refinery was ostensibly worth a lot more than what Harris put into it because demand for its "aromatic" output—chemicals like benzene—was strong.

What caused the deal to explode? Will Harris made a major mistake. He took in minority partners. They included Edwin Wells, a former Allen & Co. investment banker who took an 11% equity stake for himself. Wells' deal also automatically increased his equity if refinery repairs ran over budget. Eventually, Wells claimed majority ownership.

Alarmed by Arochem's trading volume and by unexplained losses at the refinery, director Wells began asking questions. Getting no good answers, his lawyers wrote long warning letters to Chase even before Chase made its first loan to Arochem in early 1990. (Previously, Chase had lent to Arochem through Drexel Burnham.) Wells even hired Chevron's former top trader, Richard Perkins, to study Arochem's trading.

Perkins says he found good reason to believe that much of the money Harris was losing on trading was ending up in other accounts, including Bayoil's.

How much of the bank borrowing was thus diverted? Perkins says there was the potential for tens—maybe hundreds—of millions of dollars to be skimmed. In fact, one letter from a Harris crony, found by Wells, openly asks about the "\$200 million in a Swiss bank" account. Pastis also says a Bayoil source told him there is \$200 million stashed in Liechtenstein and elsewhere, to be split with Chalmers when Harris exits the calaboose.

How do you make embezzlement look like honest losses? Obscured by his blizzard of oil trading—sometimes 8 million barrels a day, or almost as much oil as the U.S.



Tough, smart and litigious, Oscar Wyatt has built Coastal Corp. into an energy giant. In the oil trade, he crossed paths with David Chalmers Sr.—and Iraq.

Eric Breindel/Gamma Liaison



Chilean arms maker Carlos Cardoen, now under indictment in Miami, built a massive business out of supplying Iraq during the 1980s. He was paid in oil.

imports—Harris could easily have arranged deals that secretly left the risk and the losses with Arochem and put the profits elsewhere. If the trade went bad, Arochem got it; if the trade made money, someone else—Bayoil, maybe, or a secret bank account—got it.

Oil traders do big business in unlisted options, providing a further smoke screen. Perkins points to deals in which Harris would buy a put option on a cargo of crude from a friendly counterpart like Bayoil and resell a similar contract in the oil market. If oil prices climbed, the put would expire worthless and Bayoil would pocket the price of the option, while Arochem would break even. If oil prices dropped, and the ultimate buyer exercised the put, Arochem could absorb the loss while conveniently neglecting to exercise its put against Bayoil, Perkins theorizes.

Kind of: Heads Arochem loses, tails Arochem loses.

Evidence of Harris' rigged trades emerged in a 1990 lawsuit. Troy Parker, a trader suing Los Angeles-based U.S.A. Petroleum, run by Harris acquaintance John Moller, claims he once expressed alarm to Moller over the risk of selling puts to Arochem. Parker says Moller told him to relax: Arochem wasn't going to exercise the put. Documents show Moller kicked the money received for the options back to a private Harris bank account—later claiming it was just a loan.

Perkins says Arochem records show a number of such suspicious deals with Moller, Bayoil and another trading company called Delaney Petroleum, run from London by Michael Linehan, a longtime friend and associate of Chalmers. Among Linehan's traders: Oscar Wyatt's son Steven.

The list of characters keeps lengthening—and with it the suspicious circumstances. There's Irwin L. (Smitty) Vosko, a mastermind of complex oil and metals trades, now in his 70s and retired to London. Vosko headed Bayoil's key Nassau office in the Bahamas. Also working there was Peter Shaddick, who spent a year in prison for



John Pastis, a former undercover drug informant, stumbled into the Cardoen-Chalmers web while trying to sell Nigerian oil.

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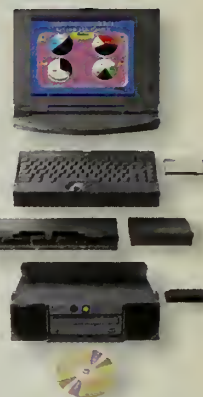
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Successful entrepreneurs aren't made, George Broady says. "They're cornered." He speaks from experience.

Expensive lessons

By R. Lee Sullivan



Ultrak Chairman George Broady
A little knowledge is a dangerous thing.

A FORMER military policeman, George Broady thought he knew something about the security business. And as a stock analyst in the trust department of First National Bank in Dallas, Broady thought he knew something about investing.

But a little knowledge is a dangerous thing. A year after putting \$80,000, a good chunk of his savings, into a startup company developing a wireless home alarm system, Broady realized the product was a dud. "It was a blow," says Broady, then 31.

But Broady is the sort who learns from bad experience rather than being devastated by it.

Now, 25 years later, Broady runs Dallas-based Ultrak, Inc., a marketer of video security systems. He sells equipment to big outfits like ADT and Brink's. He also sells security systems through Wal-Mart's Sam's Club warehouse store chain. Sales last year: \$80 million.

Not everyone has the confidence and the stamina to turn defeat into victory. Broady, now 56, was con-

vinced there was a future in home security and confident that he could figure out how to take advantage of the opportunity. Inspiration came from a 1970 television news show about how few police cars were available for neighborhood patrol. Coughing up another \$10,000, Broady bought a squad car, hired a retired cop and set himself up in a private patrol business.

He went door-to-door in affluent Dallas neighborhoods, offering to provide more patrol hours as more residents joined. In 1986 his Network Security Company earned \$5.3 million on revenues of \$59 million. The following year he sold out to Inspectorate International, a Swiss conglomerate, for \$165 million. Personally clearing \$11 million on the deal, Broady was planning to go into merchant banking. "I was going back to my first love, investing," he says.

But the new owners of his old company wanted to get rid of the division that imported alarm equipment components. He could have the Ultrak division at book value, \$662,000. Otherwise, it would be shuttered. "A whole lot of people I had just hired were going to be put out of work," he says, explaining why he took the deal.

Broady quickly narrowed the little operation's focus to closed-circuit television surveillance systems. In Japanese companies like

Sony, Mitsubishi and Toshiba dominated the business, but Broady went to Korea, where small outfits were making the stuff the Japanese were selling under their names. Soon he was selling a system that was low enough to cover a grocery store at around \$24,000, 20% less than the going rate.

Over the next three years Broady put up \$2.5 million of his own cash and raised \$1.2 million from a 1990 stock offering. The money went to expand distribution to wholesale

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In 1991 Wal-Mart, a big Ultrak customer, was looking for a video surveillance system to retail to homes and small businesses. Broady found a Korean manufacturer who could turn out a home system that could sell for under \$300. Shortly before Christmas, Ultrak began shipping to Sam's Club a video camera and monitor that hooks up to a VCR and starts to record whenever an intruder triggers a motion detector. It retails for \$299; for \$180, you can buy an add-on that automatically dials an emergency number and plays a prerecorded break-in message. Broady plans to market a similar line to discounters like Target and Kmart this year.

Along the way Broady got a painful reminder of the dangers of ceasing to focus your business. In 1992 he tried to repeat his success with inexpensive surveillance outfits by selling cheap PCs into the warehouse club market. The timing was awful; computer manufacturers like Compaq began cutting prices and selling to discounters. In 1993 Ultrak took a \$1.5 million charge to shut down the operation. "An awful expensive lesson,"

Inspiration came from a 1970 television news show about how few police cars were available for neighborhood patrol.

Broady sighs.

With that behind Ultrak, Randal Ferguson, an analyst with First Western Securities in Fort Worth, expects Ultrak to earn \$3.8 million, or 56 cents a share, on revenues of \$100 million this year. At a recent price of 7, Ultrak's shares trade at less than 13 times expected 1995 earnings; Broady's 34% stake in the company is worth \$16 million.

"Heroes," says George Broady, reflecting on the disaster that befell his first foray into business, "aren't made, nor born. They're cornered."

FOLLOW-THROUGH

Gone ice fishing



Layne Kennedy

Digi International's new chief executive Ervin Kamm

So far, no sleepless nights.

OVER THE past five years, Eden Prairie, Minn.-based Digi International landed five times on the FORBES list of the 200 Best Small Companies in America. Its profits quadrupled, to \$17 million, or \$1.15 a share, for the fiscal year ended in September, on revenues of \$131 million. Digi made its mark turning out circuit boards that allow multiple terminals to share data using a single PC (FORBES, Nov. 8, 1993).

But, as it usually does to fast-growing smaller companies, nemesis caught up with Digi. First a major supplier, Toshiba, stopped making a key memory chip with just 60 days' notice. Digi scrambled to buy parts on the gray market and redesign 19 separate circuit boards to accommodate other chips. "That cost us a couple of cents a share," says President Mykola (Mike) Moroz.

Margins were squeezed when Digi stepped up the private labeling of its PC-sharing circuit boards to big computer companies like IBM, NEC and AT&T. This boosted revenues but hurt operating margins.

Digi's stock took a dive, falling 50%, to 11¼. "I took it personally," says Moroz, 57. "I started not

sleeping nights." His wife worried about his health, remembering the heart attack he had had five years earlier. In July Moroz announced he was quitting by the end of 1994.

"The company just got to be too big for me," he says. "I looked at it and said, 'Do I need this?'" With \$1 million in Digi stock and options, Moroz is spending the winter ice fishing and fielding offers from startups.

Meanwhile, at Digi, the board recruited Ervin Kamm, 55, to take Moroz's place. A West Point graduate who was director of systems analysis for the North American Air Defense Command, Kamm is expanding Digi's product line. For example, one new product lets business travelers quickly tap into home-office local area networks using a laptop. Another allows PCs to share voice, data and video information.

Kamm's goal is to push Digi's revenues to \$500 million. Investors, who have bid Digi's o-t-c shares back up to around 18½, are beginning to share his confidence. "The only debate," declares Kamm, "is whether it takes four years or five years."

—GARY SAMUEL



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After shooting up nearly 1,000%, Russian stocks dropped by half. Such volatility is almost the least of the risks in this ultimate developing market.

High-tension investing

By Paul Klebnikov

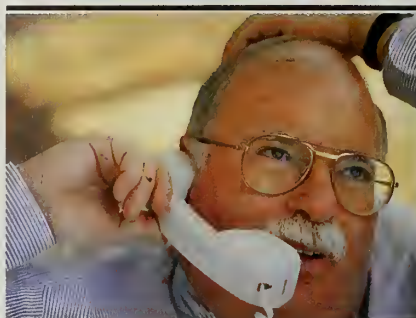
WITH ALL the gleaming investment opportunities available in the world today, why would anyone want to mess around in Russia?

John Kleinheinz of Texas-based San Antonio Capital Management answers for himself and other hedge fund operators dipping their toes in the chilly Russian waters: "The values are so low that many people are thinking it's a once-in-a-lifetime opportunity."

How low are these values? The market capitalization of Russian equities is about \$20 billion for the 23 largest companies combined: less than the market capitalization of a single U.S. giant like Exxon, AT&T or IBM. Western investors, mostly U.S. hedge funds, have about \$2.2 billion invested in the market, according to the dominant foreign broker in Moscow, CS First Boston. That's relatively

small change for the foreign investors but already represents a sizable stake in Russian industry.

Probably the largest single portfolio of Russian stocks belongs to George Rohr's Bermuda-based New Century Holdings, which holds an estimated portfolio of over \$200 million in Russia. George Soros is close behind, with just under \$200 million.



John S. Abbott

Other big players: Julian Robertson's Tiger Management, about \$100 million; Michael Steinhardt, about \$100 million; New York-based Croco Capital Management, \$80 million; San Antonio Capital, \$50 million.

Even by hedge fund standards, this is nail-biting stuff. In 1993 a London-based commodities trader, Transworld Group, bought 20% of the giant Krasnoyarsk Aluminum Plant for about \$10 million. Three months later Transworld was informed by the Krasnoyarsk managers it had been wiped off the shareholder register. So sue it.

Transworld's partner in the Krasnoyarsk deal, as in most of its other deals in Russia, was a Monaco-based company called Trans-CIS Commodities. Trans-CIS is run by Lev Chernomyrdin, a shadowy metals trader from Uzbekistan rumored to be a gangster controlling much of Russia's aluminum trade. In Russia it's tough to figure out where the government and legitimate business people leave off and gangsters begin.

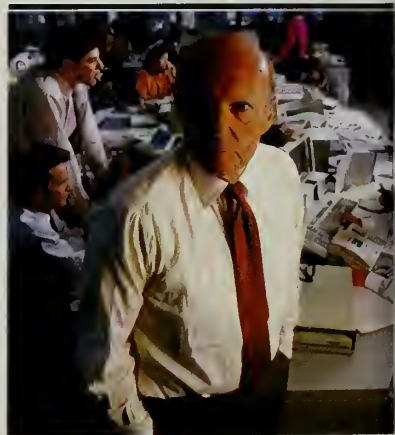
Most of the hedge funds have been careful, buying only the largest, most liquid issues. San Antonio Capital's holdings are oil companies like Lukoil and Tomskneftegaz, 40% of its portfolio. The rest is spread among aluminum companies Sayansk and Irkutsk; cement companies Katav-Ivanovo and Ulianovsk; forest products companies Bratsk Timber; the telephone monopoly Rostelekom; shipping company Volgatanker.



Leandro Fernandez

Russian investors Michael Steinhardt (top), George Soros (left) and Julian Robertson

Buying at fire-sale prices; nail-biting stuff, even by hedge fund standards.





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The hedge funds usually execute their trades through one of the top six Moscow brokers: three Western ones—CS First Boston, Brunswick Brokerage and Troika Dialog; and three Russian ones—Grant, Russia Brokers and Rinako Plus.

Most of the action, even between Russian parties, takes place outside Russia. Here's how a deal works:

A hedge fund signs a purchase/sale contract in New York. The stocks are either dollar-priced or dollar-indexed, so the principals don't have to worry about the ruble. The fund wires funds from its Bermuda-based company to the Cayman Islands subsidiary of a Russian bank. To get the shares registered on company books, you need a stockbroker, a Moscow-based law firm or one of the indepen-

"The values are so low that many people are thinking Russia is a once-in-a-lifetime opportunity."

dent share registry services.

Taxes? No one seems to know for sure if foreigners should pay a 20% tax on their capital gains (if any) to the Russian government.

How are the risk-loving foreigners doing? The CS First Boston index of the 23 Russian blue chips rose from 190 in March to 1706 in mid-September, then crashed, and the revised 21-company index now stands at 734. Those who bought early retain enormous profits, but they are probably outnumbered by those who arrived in July and August, when the market was peaking. These losers should have known better: When a market shoots up nearly 1,000%, it is due for a reaction.

Some of the unlucky ones are hanging on, hoping to be rescued by a fresh wave of foreign money. In about six months the Russians are expected to have improved custodial arrangements and strengthened stock market regulations. That could be the catalyst for a new capital invasion. After all, the Russian market could double again and still be worth less than Exxon.

Paul Kahn very much wanted to start his own company. Instead he found plenty of challenge—and headaches—in running somebody else's.

Filling the founder's shoes

By Rita Koselka and James M. Clash

A FUNNY THING happened to Paul Kahn on the way to starting his own company. He went back to work for somebody else's company.

From 1989 to 1993 Kahn, now 50, was president of AT&T Universal Card, the phone company's credit card operation. He built it from scratch into a business with 17 million cardholders

and more than \$1 billion in revenue.

Bursting with confidence, he left AT&T Universal in May 1993 determined to put his talents to work for himself. But before Kahn could launch his own act, he was asked to join the board of SafeCard Services Inc. He'd like to run that company. Tough decision. His heart was set on creati-



SafeCard Chief Executive Paul Kahn

"You can't have top-quality service if employees don't feel valued."



Richard Interdonato, head of operations
"We brought the best from our old companies," says the former American Express executive of SafeCard's all-new management.

his own company, but here was a great challenge and a chance to make a lot of money: \$750,000 a year in salary, and options for 1 million SafeCard shares at around \$13, the market price at the time. In December of 1993 Kahn said yes to the SafeCard offer.

Started in 1969 by an ambitious entrepreneur named Peter Halmos and his brother Steven, SafeCard essentially is a registry for consumers' credit cards; if the cards are lost or stolen, SafeCard quickly informs issuers. Currently some 13 million cardholders pay \$15 to \$45 a year, depending on the services provided.

As Kahn evaluated the SafeCard offer, he was struck by how profitable the company was and what a solid launching pad it could be for expansion. On 1993 revenues of \$167 million, SafeCard earned \$31 million (\$1.10 a share), a 20% return on capital. It had no debt and \$180 million in cash in the bank.

But under Peter Halmos, SafeCard had become a company obsessed with security. Every employee was searched as he or she exited SafeCard headquarters in Cheyenne, Wyo. The building was controlled by fingerprint identification systems. Armed guards roamed the halls. It was not an atmosphere that encouraged innovation or risk-taking. Amidst hostility and dissension, Halmos finally left in 1992. Kahn quickly fired all eight top managers and got rid of Halmos' over-protective security. "You can't have top-quality service if employees don't feel valued," Kahn says.

Next: Computerize the place. Until recently SafeCard kept its credit

card records on microfilm. Working with SafeCard's new head of operations, Richard Interdonato, formerly of American Express, Kahn is spending \$6 million to computerize every facet of the Cheyenne operation.

Now for the growth that Kahn had come there to achieve. But not any growth. It had to be related to the solid business that Halmos had created. In September SafeCard spent \$35 million in cash to purchase Wright Express Corp., a Portland, Me.-based \$12 million (1993 revenues) company that issues credit cards to truck and auto fleet drivers and monitors their expenses (*FORBES*, Dec. 20, 1993).

The hottest growth area in credit cards these days is "co-branding." For example, each dollar charged on a Citibank Advantage card adds a frequent flier mile in American Airlines' Advantage program. In August Kahn announced a co-branding deal between SafeCard and the Professional Golfers Association tour. Purchases on the new PGA Tour card will build points toward golf tournament tickets and other golf-oriented rewards. SafeCard will get a percentage of the \$55 membership fee and of other potential services—including golf clinics, a direct mail golf catalog and operating golf tours.

But there remains a very big worm in Kahn's apple. It's called Peter Halmos. In 1994, SafeCard's revenues rose 13% over the prior year, but earnings sank 36%. A big reason for the earnings plunge is lawsuits launched against SafeCard and various insiders by Halmos.

Bitter at his treatment by SafeCard,

Halmos has been suing the company and its directors in courts in New York, Florida, Wyoming and Illinois for, among other things, defamation of character and loss of incentive pay. Halmos is demanding some \$200 million from SafeCard, which has spent more than \$11 million in the last two years defending itself against the suits. Never mind that none of the suits has really gotten anywhere. Recently a class action suit has been filed—in tandem with Halmos' claim—by seven SafeCard investors charging stock fraud by Kahn and company directors.

Frank Marino, SafeCard's new vice chairman (and Kahn's former attorney), says Kahn wants to settle, but Halmos won't come to the table. Retorts Halmos: "When they pay me what I'm owed, it can be settled."

Kahn's tactic for dealing with the pesky lawsuits is to refuse to be paralyzed. He's going ahead with his expansion as though they weren't there.

Thomas Donatelli, a securities analyst at Wertheim Schroder, predicts the company (which will change its name to Ideon Group in April) will earn at least \$1.25 a share in fiscal 1995 (ending Oct. 31), up from 70 cents a share last year. Donatelli cites strong growth in the basic card notification operation, and the fact that the trucking-and-fleet operation will kick in nicely this year.

Kahn plans to make SafeCard's accounting more conservative by writ-

Every employee was searched. Armed guards roamed the halls.

ing off customer acquisition costs over one to three years instead of 11 to 12 years currently; the change will result in a one-time noncash aftertax charge of about \$45 million. But it will make SafeCard's bookkeeping look a lot more solid and improve the quality of its earnings.

With SafeCard's stock now at around \$17, Kahn's already in the money to the tune of \$750,000 on the options that have vested since he joined the company. Now, if only those lawsuits would go away.

A corporate executive warns the Internet could be his company's "biggest productivity reducer." The truth about cyberspace is this: New technologies go through three phases—mania, bankruptcies, rebirth. Right now it's mania time on the Internet.

Where's the money?

By David C. Churbuck



RODERICK BRAITHWAITE thought that he had the information super-highway all figured out. His Victoria, B.C. company, Internet Order House, built an electronic catalog for an Edmonton merchant selling backpacks. He put the catalog on the Internet's World Wide Web, told the Net where it was, and waited for the customers to show up.

He's still waiting. "We have been dismayed at the lack of interest to date," Braithwaite confessed to an Internet mailing list in October, one month after opening the electronic store. "I mean, we're talking two responses total, and one of those was a friend of mine."

Mark Radcliffe, a Palo Alto, Calif. lawyer and coauthor of the *Multi-media Law Handbook*, had a similar experience. He put a \$30 abridged electronic version of the book up for sale on the Online Bookstore. "We've had about 1,000 lookers, but not one sale," he says. "We thought multi-

media law was a natural for people on the Internet. But people don't want to pay for anything. I guess it is all part of the culture."

If you believe some of the published hyperbole, 20 million people worldwide are on the Internet, and this network of hip, modem-ready computer users is growing 15% a month. That's 435% a year.

Internet is on everybody's lips and in everybody's news stories. A Nexis search shows 2,475 newspaper stories containing the word Internet in just one month, November. That was a gain of 309% from a year earlier.

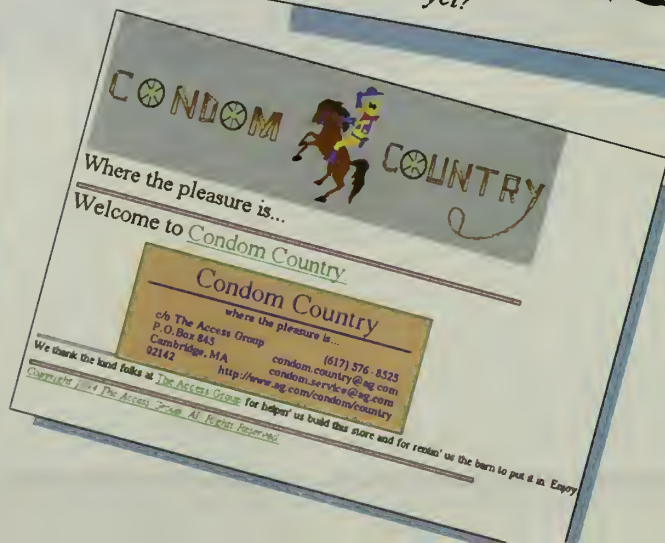
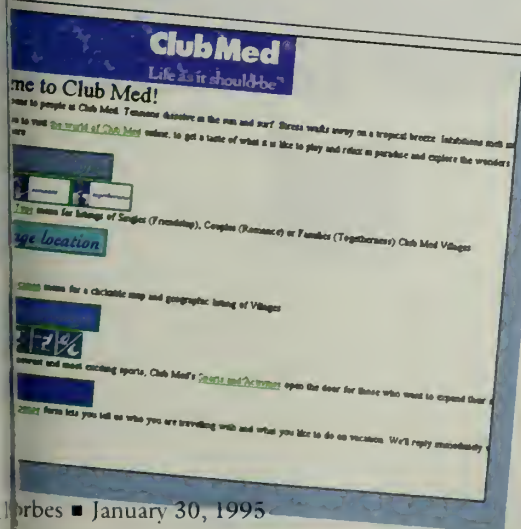
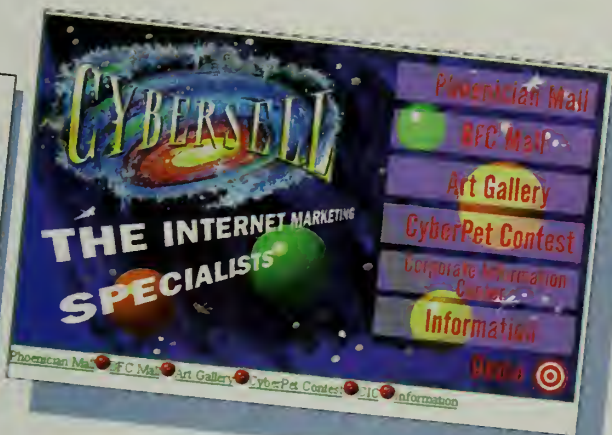
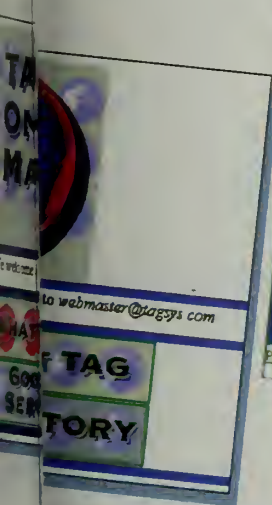
But where is the flood of spending money this great phenomenon was supposed to unleash? As John Little, founder of Portal Information Network, Inc., a Cupertino, Calif. Internet access provider, puts it, "It is still a lot easier to pick up the phone and order a pizza than log on to the computer and do it.

"The things happening to the In-

ternet are the same things that happened in the videotext industry," Little continues. "People wouldn't spend \$700 on a limited-function TV set to look up a phone number. All in all I think we'll be seeing a lot of disappointment in the Internet very soon. Right now it is like an enormous library with no card catalog. People look around and leave."

Don't tell this to Wall Street. America Online, the premier pure play in on-line services, trades at 131 times earnings. Netcom On-Line Communication Services, which is in the business of providing connections to the Internet, went public a month ago at 13 and has since shot up to 24¼. That is 1,212 times earnings. It values each Netcom subscriber at a preposterous \$3,600.

Venture capital is pouring into anything with the word Internet in it—at least \$30 million in the last six months, according to newsletter *VentureFinance*. Bolt Beranek & New-





For cellist *Yo-Yo Ma*, calling a hotel room home is nothing new. While on tour, it might be a converted monastery in Florence one day, and a Hong Kong high-rise the next. Not surprisingly, Yo-Yo Ma prefers to travel light. A goal made easier by his new IBM ThinkPad® 755CE. And more difficult by his 250-year-old Stradivarius, which, understandably, requires its own separate seat on the plane.



(Y_o - Y_o)

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man, an electronics firm with a spotty earnings history, is trying to get back in Wall Street's good graces. It has dumped a hardware division and is putting its money into acquiring regional Internet networks.

AT&T reportedly paid \$50 million for the Interchange Online Network, an on-line service that hasn't even started. America Online just shelled out \$30 million to get BookLink Technologies, a firm working on an Internet interface. At the time of the sale, BookLink had but 15 employees, had been in existence for all of nine months and had yet to sell its first piece of software.

Are most of these eager investors fated to be disappointed? If technology takes its usual path, the answer is almost certainly that they will be disappointed with a capital "D." Human beings have a stubborn habit of not doing things when the technologists say they ought to. The real revenue shows up a decade or two later.

Railroads changed the world in the 19th century, but many of the early railroad companies went broke. So did many of the pioneer auto companies. Three decades ago, it was pre-

dicted that IBM, General Electric, RCA and Control Data would dominate the computer age. Only IBM actually made it. Several of today's leading players, including Compaq and Apple, were created only when the computer era was already 30 years old.

Few of the pioneers in TV have even survived—remember Dr. Allen DuMont, his manufacturing company and his network? The movie companies, once thought to be victims of TV, turned out to be among the biggest winners.

In short, the triumph of technology is foreseeable; what direction it will take and how society will use it is not predictable.

So it may be with the Internet.

Yes, there are people making money off the Internet right now. But they aren't the people selling products on the Internet or reengineering their businesses around the Internet. They are the folks selling connections to it, software to navigate it, seminars tout-ing it and books explaining it.

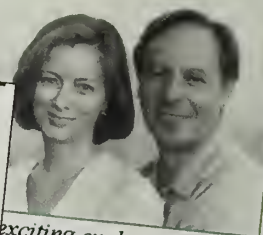
Put it this way: Hyping the Internet

has become almost as big a business as the Internet itself. *Books in Print* has 230 titles that include the magic word Internet. Laurence Canter and his wife Martha Siegel, the pioneers of Internet junk mail, were roundly attacked for the on-line advertising of their legal business. No matter. Now

Internet is on everybody's lips and in everybody's news stories—2,475 of them in just one month, November.

they're cleaning up with their *How to Make a Fortune on the Information Superhighway* (HarperCollins, \$20). "It isn't often that you have an opportunity to take part in the development of a great new industry, but it's about to happen to you right now," Canter and Siegel gush in the book. "By the time you finish this book, you'll be able to cybersell with the best of them."

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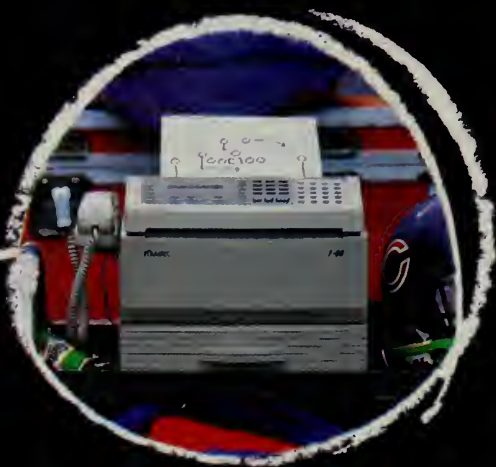
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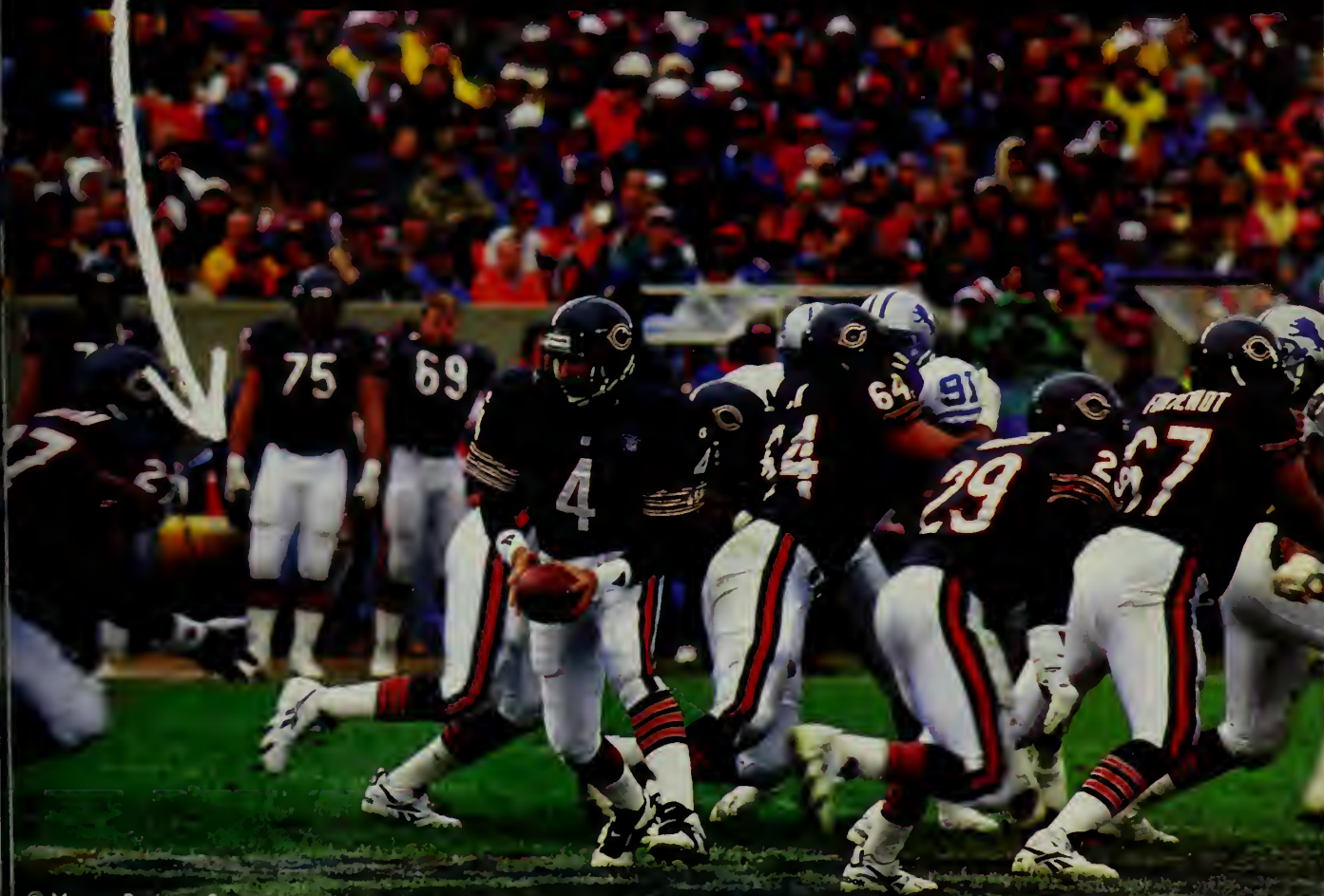
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One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. 1-800-543-4636



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So, if you can't sell products on the Net, you can still sell advice to people who think they can sell products on the Net. Last year Mecklermedia of Westport, Conn. folded its on-line marketplace only two weeks after opening for business. But it hauled in \$1.3 million hosting an Internet trade show, double the year-earlier figure.

In the early days of the gold rush, it isn't the prospectors who get rich. It's the folks selling steamship tickets to California, blue jeans and picks who get rich.

The hype is breathtaking. Consider this excerpt from a brochure touting a \$695-per-person conference in Los Angeles this March on "The Business of Interactive Information":

"... a multitrillion-dollar industry based on the dynamics of interactive information flowing into and out of our homes, offices, cars, and classrooms... a digital superhighway that provides datariders with anytime/anywhere information... a world where virtual reality is reality. The result will be an electronic global community living, working and playing in cyberspace. And the biggest new market opportunity in history."

Who are these 20 million Internet users? A fair number, we'll wager, are already suffering from Internet burn-out. Here's the syndrome. You access the Australian Defence Force Academy archive, then paw through 37 comments about a Unisys patent that has on-line fans in a tizzy because it

"Right now it is like an enormous library with no card catalog. People look around and leave."

threatens their photo downloading, then read the same Pentium joke for the third time in a Usenet newsgroup. Then what? Maybe you go back to your TV set. Maybe even pick up a book or a magazine.

We know of a foreman with no computer experience who acquired a sudden fascination with the Internet last summer after seeing on-line erot-

ica at a neighbor's house. Soon he had a spanking new computer with a 14,400-bit-per-second modem and SLIP connection so that he could cruise the Web in all its graphical user interface detail. After downloading picture of a naked woman (it took 2 minutes), he went back to reading *Playboy*. Now he uses the machine to play Doom and store phone numbers.

"Consumers won't put up with the slow speed and unpredictability of the Internet," says Lee Levitt, an analyst at International Data Corp. "Corporate America is looking at the Internet as the opportunity to save their business. It won't happen. Coca-Cola won't take orders for six-packs online."

Even if the Internet were already the most efficient way to buy groceries, it would be a long while before consumers preferred it to their old shopping habits. Maybe Time Warner should be grateful that technological glitches caused its video-on-demand service to get off to such a slow start in Orlando. It will take a decade to wean consumers from their rented video. In short, Sumner Redstone was just stupid when he paid \$7 billion to buy

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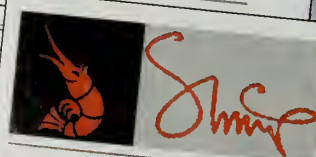
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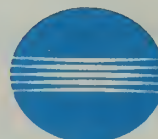
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Can a PC make you a sharper manager?

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

THE FIRST GENERATION of personal computer software was clerical. It replaced secretaries and bookkeepers. I'm talking about programs like spreadsheets and word processors.

The next generation of PC software was designed to inform or entertain us. In this category are games like *Myst*, reference works like dictionaries and atlases, and CD-ROMs that teach your kid to read.

Now a new category is emerging that blends the other two. It does clerical work, but it knows more than a mere spreadsheet or word processor program. Call it, if you will, middle manager software. When sold to corporate users, it replaces, not a secretary, but a memo pusher in the personnel or marketing department.

This is good news not just for the many employers that are cutting costs by firing middle managers. It is also an opportunity for a new round of software entrepreneurs. Startups have no prayer of dislodging the entrenched giants of clerical applications (like Microsoft, Lotus Development Corp. and Novell's WordPerfect division). But they can break new ground in the more creative applica-

tions that rise above clerical work.

On the simplest level, publishers are adding information to familiar clerical programs. Microsoft, for example, has improved Word for Windows by including links to CD-ROM versions of the *American Heritage Dictionary* and the *Hammond Atlas*. Intuit, soon to be acquired by Microsoft, embeds the CD-ROM version of its Quicken home accounting program inside a package that includes an interactive guide to mutual funds and videos of financial advice.

Smaller publishers are going further. Two prime examples are Employee Appraiser from little Austin-Hayne in Redwood City, Calif. and Performance Now! from KnowledgePoint in Petaluma, Calif. Both of these programs, which cost between \$50 and \$100, help managers write up appraisals of the workers who report to them.

The Austin-Hayne application organizes the performance categories to be considered ("initiative," "team work" and so on). Then it lays out an on-screen form in which to enter data and construct the report. It leads the boss through various libraries of standard text, such as "always tackles problems" or "works well in groups." Such boilerplates can be modified to make comments less or more adulatory—in the event that Joe Employee is "too informal in group situations."

Think of the possibilities. A few keystrokes automatically turn a warm appraisal into a hatchet job.

This exercise completed, Employee Appraiser gives the boss all the tools of a typical word processor with which to dress up the report on a nice typewritten page. In a similar vein, KnowledgePoint produces Descrip-

tions Now! and Policies Now!, which aid in writing job descriptions and employment policy handbooks.

Negotiator Pro, the first product from a company of the same name, tackles the somewhat nebulous field of bargaining. The user answers questions about his bargaining objectives and company strengths and those of his opponent, which the program translates into a summation of each side's relative advantages or disadvantages. Then it is up to the user to take these results and fashion them into a written negotiating plan in the word processor that comes with the software. A glossary of negotiating terms and a compendium of a dozen case histories round out the program.

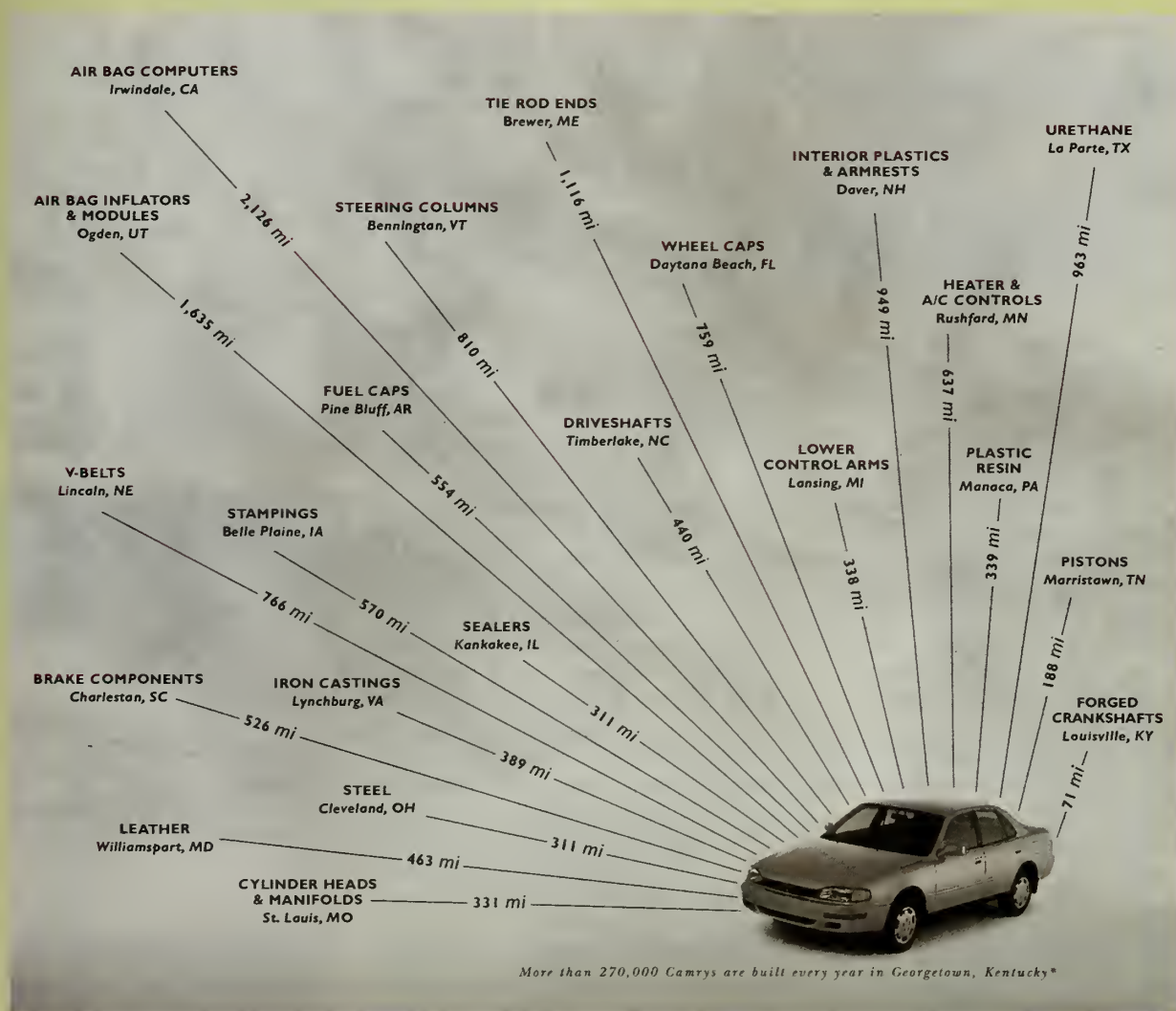
Doesn't sound like the kind of thing that would help Sumner Redstone in a crucial merger battle. On the other hand, it may enable a bureaucratic corporation to dump some of its bureaucrats and have the survivors write faster.

A few keystrokes automatically turn a warm appraisal into a hatchet job.

Some of these "expert" applications come dressed up in multimedia. One is Crush, from Hands-On Technology, a year-old venture backed by Silicon Valley PR legend Regis McKenna and other investors. Crush, named for a strategy McKenna successfully urged on Intel in the late 1970s, is supposed to help product managers and other marketing types crush the competition. It has the user build a file of competitors' strengths and weaknesses and then displays the data graphically. The fun starts when the user connects to audio and video coaches for several hours of tips on marketing strategy from the likes of Fred Smith of Federal Express and, of course, Regis McKenna.

Let's be realistic. Computer programs aren't going to replace the critical element of judgment in business management. But their creators may find new ways to speed up bureaucratic chores and perhaps even to inspire the bureaucrats to higher achievements.

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The case for herd-following

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is a portfolio manager. His forthcoming book on investing in technology stocks and funds is *The Market that Beats the Market* (Little Brown, 1995).

IT IS ALMOST A CLICHÉ on Wall Street to go off in search of “underowned and undervalued” stocks. The idea is that you find some undiscovered baby Wal-Mart trading over-the-counter at 12 times earnings. Within a few years the steady earnings gains attract attention and the institutions crowd in. That’s when you unload at 23 times earnings.

It’s a lovely idea, but the truth is that the market, even in thinly traded o-t-c stocks, is pretty well picked over. Genuine bargains are extremely hard to uncover.

After a tepid performance in 1994, the technology sector will enjoy a strong 1995.

When you tire of trying to find overlooked bargains, consider trying the reverse strategy. Buy stocks that are popular with the institutions—specifically, with mutual funds. Understand that I would not make a practice of this or use it as a long-term strategy, but just now it won’t hurt to pick one or two such stocks. Be a herd-follower.

Herd-following doesn’t make any sense in a bear market. But if you

think a bear market is a long way away, keep reading.

Take a look at the table. Here are 25 profitable technology stocks with market values of less than \$1 billion, ranked by the number of brokerage analysts who have posted earnings forecasts. The most heavily analyzed companies on this list (Cordis, Broderbund and Sequent) are each being followed by 17 analysts.

Notice the second column of figures, showing the number of institutional holders of these stocks. It is no accident that heavily followed stocks are widely held by institutions like banks, insurance companies and (most significantly) mutual funds.

Stock analysts are not stockbrokers, but it must be clearly understood that the analysts’ research reports, business relationships and briefings are an important part of the marketing mechanism through which stocks are sold to institutional buyers. You can look at a company’s institutional stock holdings to determine how many of its shares have been bought up by professional money managers. (You can find this figure by looking in the S&P *Security Owner’s Stock Guide* or in an on-line database, such as Telescan of Houston.)

But knowing what money managers have bought is not the full picture. It also helps to know what they are being sold. If many different analysts from many different brokerages have been assigned to follow a particular stock, then you can assume the stock is being well and vigorously marketed to fund managers.

When cash flows into funds, their managers tend to build positions in stocks they already own. So, if cash keeps coming into equity funds, it’s a fair assumption that managers will buy more of these favored stocks.

That is, to be sure, a big if. In a severe downdraft—one bad enough to trigger fund redemptions—these

same stocks are vulnerable to indiscriminate institutional selling. These stocks are also vulnerable individually to institutional selling on earnings disappointments, since 17 analysts can foment an awful lot of disappointment. But these are the risks you are taking if you decide to invest along with the funds and other institutions. In an up market, the rewards outweigh the risks.

After a tepid performance in 1994, I think the technology sector, and the science and technology sector funds, will enjoy a strong 1995. One stock on this list that seems intriguing is Cerner Corp., a clinical information systems company based in Kansas City, Mo. At a recent 46, it is trading at 39 times earnings of \$1.18 over the 12 months through September. This is expensive in comparison with the market as a whole, but not in comparison with the other stocks on the table favored by institutional buyers. Buy it at 46 or better.

Where analysts swarm

Company	Analysts following it	Institutions that own it
Cordis	17	193
Sequent Computer	17	131
Broderbund Software	17	123
Scimed Life	16	176
Cypress Semi	16	150
Powersoft	15	114
Altera	14	181
Stratus Computer	13	225
Novellus	13	158
Chipcom	12	157
Ventritex	12	155
Learning Co	12	60
Platinum Technology	11	86
Synopsys	10	171
Octel	10	141
Cerner	10	129
Cadence Design	9	149
America Online	9	113
Banyan Systems	9	93
Landmark Graphics	8	132
Komag	8	116
Peoplesoft	8	101
Picturetel	7	73
Maxim Integrated Prods	6	161
Network Equipment Tech	6	65

Strategy: Buy stocks that institutions are most likely to buy more of.

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Photographs by Rita Koselka and James Kreisman

A lodge in the tiny village of Mong
Trekkers can always find basic creature comforts.

It's been 40 years since Mount Everest was first scaled. Today any reasonably fit traveler can trace some of Sir Edmund Hillary's footsteps.

Himalayan high

By Rita Koselka

NO ONE is yet thinking of putting a McDonald's at the peak of Mount Everest. At 29,000 feet, it is still seldom crested. For example, our Sherpa told us that no parties at all reached the summit in 1994.

Yet nearby Himalayas, and the rising foothills below Everest itself, have become trekking grounds for thousands of tourists each year. Provided you are in reasonable shape and are not prone to altitude sickness, you'll have little trouble walking the trails that lead to the base of Everest, and maybe even scaling the peaks of smaller mountains nearby. You can even do so in relative luxury.

Guided treks—most between 12 and 21 days—can be arranged three ways. The easiest is to contact tour operators in the U.S., like Himalayan

Travel, Stamford, Conn.; Wilderness Travel, Berkeley, Calif.; or Mountain Travel-Sobek, El Cerrito, Calif. Or you can deal directly with a tour operator in Kathmandu via fax. A good one is Asian Trekking (fax 00977-1-411878).

Even if you are fit, a certain amount of common sense is called for. You'll start trekking at about 10,000 feet, and are apt to tire quickly at first. (For lower-altitude trekking, many tourists visit the Annapurna region, with trails between 3,000 to 12,000 feet.)

It's wise to start off slowly, or better yet, spend a few days in thin air before starting your trek. One way to do this is to allow a few extra days and fly from Kathmandu to Lhasa, in Tibet (elevation, around 12,000 feet). The best hotel is the Holiday Inn, at roughly

\$100 a night. (Note: Tibet is still occupied by China; get visas in the U.S. first.)

We did the Lhasa detour and our return to Kathmandu took a large Soviet-made and -manned helicopter to Lukla, one of the trekking bases for the Everest region. There we were met by our Sherpas, an entourage of seven for just the two of us—a guide, cook, two cook's helpers, and three porters who carried gear in baskets on their backs. All we had to do was carry ourselves and enjoy the scenery.

Treks are tailored to suit the age and shape of the hikers. We were both in good shape and in our early 30s. Older or more sedentary types will want to do an easier trek. We started off our 12-day journey at 9,000 feet along a gentle tree-lined trail, flanked on both sides by a mixed bag of tourists. But as we trekked higher, the crowd thinned out. At first we saw lots of middle-aged Germans using ski poles as staffs, French of every age in fashionable neon climbing gear, and Japanese business types, who barely broke a sweat, decked out in knickerbockers and hiking boots. When they returned all of them doubtless will dine out on stories of having—well, almost—conquered Everest.

Days later, and thousands of feet

higher, the trails would be nearly deserted. At first the scenery was almost alpine, and the hiking easy and pleasant. Until we hit the first rickety, hanging bridge. We held the handrails tight and fought the sway as we moved slowly across, trying not to look down. After the first passage, these bridges became fun.

Hanging bridges notwithstanding, we were never far from a place to stay or to get a hot meal. Or emergency assistance. Lodges and teahouses dot the trails, and virtually every Sherpa home is an inexpensive bed-and-breakfast. But if this isn't barebones mountain climbing, neither is it four-star travel. Our cook was used to looking for Americans, and took pride in his fish patties, vegetarian pies and sausages. There's plenty of beer available along the trails, and, if you can handle it, the local rice wine—milky in appearance, and slightly sour to the taste. Don't, however, expect fancy steaks or fine wines.

Most nights we slept out, comforted by the moos of the yaks and buffalo that are the pack animals of choice.

By day, in the strong sun, the climate was ideal for trekking. But at the higher altitudes, temperatures dropped way below freezing at night. Every morning it took willpower to crawl out of our sleeping bags. The Sherpas coaxed us out with hot cocoa and tea and basins of hot water for bathing.

We planned on reaching Namche Bazaar, a Sherpa trading village, in two days—a brisk clip. My companion, Jim, more affected by altitude



The ultimate challenge, Mount Everest
No parties managed to scale it in 1994.

than I was, took Diomox for two days for his altitude sickness, and we both drank four liters of water daily. He suffered some headaches and strange dreams, but the exhilaration more than made up for it.

Namche Bazaar is a village of a hundred or so whitewashed buildings, all of them hawking something—from mountaineering gear to Sherpa and Tibetan handicrafts and jewelry to furs and knitwear.

Some travelers will want to quit there. We continued on to more adventurous territory. Everest is surrounded by lower peaks that don't require climbing gear to scale. We did two of them: Kala Pattar (18,300 feet), and Gokyo Ri (17,710 feet). Each was a one-day climb.

We also tackled two glacier-filled passes, the Kongma La and Cho La. By now we were almost beyond the tourist belt. But at 17,000 we ran into a former Salomon Brothers salesman

from New York who had dropped out of the rat race.

In Gokyo, on a blazing blue glacial lake, there is the Gokyo Resort, which has private rooms and hot showers—luxuries when you're at 15,700 feet.

The best hotel in the region is the Everest View, above Khumjung, the largest town in the Everest region. At about 12,500 feet, the hotel charges about \$200 a night, and even sports a volleyball court.

That's where we ended our trek, and from Shyangboche, an easy 20-minute walk away, we caught a helicopter back to Kathmandu for our flight back to the U.S.

Like many U.S. travelers, we had become very fond of our Sherpa hosts. In fact, the U.S. Embassy in Kathmandu gets so many requests from Americans who want to bring their Sherpas home that it has prepared a special pamphlet detailing how hard it is.

Cost per person, exclusive of airfare, runs about \$2,500 to \$4,000 for up to 21 days of trekking, if organized in the States. Treks can be arranged much more cheaply by dealing directly with a tour operator situated in Kathmandu. We paid less than \$900 apiece, before tips.

Round-trip direct airfare from either Los Angeles or New York to Kathmandu is \$1,500 and up on Air India. Royal Nepal Airlines doesn't fly direct to Kathmandu from New York or Los Angeles. Best times to visit: February through late April; September through November.



On the trail to Namche Bazaar
Sherpa porters tote your gear. Yaks carry heavier burdens—besides providing milk and cheese.

Collect what you like, not what the "experts" like. That old saw made a lot of money for people who fell in love with Edo-period Japanese art.

Contrarian collecting

By Esther Wachs Book

A HANDFUL OF American servicemen who served in Occupied Japan after World War II developed an eye for a certain kind of Japanese art—prints, paintings and screens from the Edo period (1615-1868). Today some of that art has appreciated about a thousandfold.

Mary Burke, a wealthy Manhattan collector, shares that love of Edo-period art. Her collection of 800 pieces is one of the best and broadest private collections outside Japan. Part of her Upper East Side residence re-

sembles a Japanese teahouse. Beige tatami mats cover the floors. Peaceful landscapes of mountains and arching cliffs line the walls. A painting of Japanese courtesans wrapped in bright kimonos greets as you enter.

Burke made her first trip to Japan in 1954 to visit Japanese gardens at the suggestion of famed architect Walter Gropius. She was seeking ideas for landscaping her home on New York's Long Island. She found herself hooked on Japanese art.

In 1956 at Sotheby's in New York,

she bought her first piece, an Edo-period screen that had once belonged to Frank Lloyd Wright. She paid less than \$1,000. Now it could fetch up to \$70,000. She followed this by buying Edo paintings and screens for a few hundred dollars apiece in auction houses and dealerships in the U.S., London and Tokyo. "When I first started buying Japanese art, they [dealers and auction houses] didn't know what they had. It was fun because there were so few of us and it made you feel smarter than other people."

For a few thousand dollars each Burke acquired paintings by a number of Edo artists whose works have since appreciated dramatically. According to Leighton Longhi, a prominent New York dealer of Edo paintings, some works by artists like Ito Jakuchu now fetch over \$500,000, while those of Zen painters like Hakuin Ekaku can make \$200,000 or so. In the 1970s Burke bought decorative Rimpin screens for under \$3,000, some of which might now go for over \$1 million. In all, her collection is worth tens of millions.

Burke's timing was just right. In the postwar period Edo art was considered too recent and too commercial. The reemerging Japanese wealth



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Black/Toy



Chicago lawyer George Mann and some of his 150 Japanese prints
Portrait of Tomimoto Buzen Dayu II (left) is one of his rarest.

ass preferred earlier classical works.
Edo-period art represented a break
om that tradition. It was intended
ot for the aristocracy but for the
merging merchant and professional
asses. Japan was in transition from a
udal to a commercial society, and art

of the period depicted the changing
landscapes, emerging towns and bold
creativity of this prosperous era.

In the 18th and 19th centuries the
Japanese also began publishing
woodblock prints of everyday plea-
sures as a commercial art form. These
were called *ukiyo-e*, literally "scenes
from the floating world," and depicted
courtesans, Kabuki actors and
landscapes. *Ukiyo-e* art also embraced
painting and screens and such items as

lacquerware and porcelain figures.

The market for Edo-period objects
began rising again in the 1970s, lev-
eled off in the early 1980s and sizzled
again in the late 1980s and early
1990s as Japanese began buying. As
the yen rose against the dollar, prices
rose further. Now, with Japan in re-
cession, the market is fairly quiet.

George Mann is an American collec-
tor of Edo art who specializes in prints.
A corporate lawyer in Chicago, he
began his 150-print collection with
\$100 purchases through local dealers
in Chicago, but then graduated to the
better-quality prints at Christie's and
Sotheby's. Mann owns prints by Edo-
period artists like Toshusai Sharaku
and Kitagawa Utamaro that are worth
up to \$400,000 today.

What does Mann look for? "With
prints, it's important to look for de-
sign, color preservation, rarity,
strength of the impression and condi-
tion," says Mann. "If there have been
extensive repairs, I'm not interested.
You have to educate yourself by see-
ing prints as often as you can."

Excellent collections of Japanese
art can be found at New York's Met-
ropolitan Museum of Art; the Art
Institute of Chicago; Boston's Mus-
eum of Fine Arts; the Freer Gallery of
Art and the Sackler (Arthur M.) Gal-
lery in Washington, D.C.



Malcolm Varron/The Mary and Jackson Burke Collection

LEFT:
Six-frame
screen of
"The Tale
of Genji"
**Edo-period
screens sold for
under \$1,000
in the 1950s;
they are
now worth
up to \$70,000.**

RIGHT:
Avid collector
Mary Burke
in kimono
**Over 800 pieces
in her multimillion-
dollar collection.**

Sheldon Conklin Collins/The Mary and Jackson Burke Collection





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Tortus interruptus

RICHARD WEEKLEY sold commercial real estate in Houston and cofounded, with his brother, \$415 million (sales) David Weekley Homes, one of the nation's largest privately held home builders.

Then he read a paper by *FORBES* columnist Peter Huber on lawsuit abuse. "This is crazy," said Weekley. "It's not the American way." To help turn things around, Weekley, 49, started Texans for Lawsuit Reform in 1993. Among his goals: punitive award caps at two times actual damages and elected

Richard Weekley
Back to the American way.

judges off cases whose lawyers give over \$5,000 to their campaigns.

With \$2 million he's raised, Weekley's group helped defeat three state senators who opposed tort reform, while propelling three pro-reform state Supreme Court justices onto the bench in the November elections.

And Governor George W. Bush has made lawsuit reform a top priority. That's a foundation to build on.

—CHRISTOPHER PALMERI

Mea culpa

AFTER ROBERT PRICE of Price Communications overleveraged to buy TV and radio stations, the \$22 million (sales) company landed in bankruptcy in 1992. "I was the captain of the ship," admits Price, 62. "It was my fault."

But things have turned around for Price. The company emerged from Chapter 11, and the stock has gone from 60 cents to a recent 63¢.

Now Price has a second

chance. Last month \$20 million (sales) Pri-Cellular, a former subsidiary with properties in the Midwest, went public after raising \$110 million in junk bonds.

Bondholders hope strict covenants prohibiting Price from overleveraging will protect them. But Price may not own Pri-Cellular for long; some speculate AT&T's McCaw Cellular—which owns 17 of it—will take it over. Hope springs eternal.

—RIVA ATL



Robert Price of New York-based Price Communications
"I was the captain of the ship. It was my fault."



Richard Gordon of Subic Bay
The next president of the Philippines?

Bay watch

WHEN the U.S. Navy closed the century-old Subic Bay in November 1992, it was Richard Gordon's job to revitalize the facility, which once employed 42,000 locals and was home to 6,000 Navy personnel.

The son of an American father and Filipino mother, Gordon, 49, used Subic's strategic location and low-tax, free

trade zone status to attract over \$700 million in new investments—everything from oil storage facilities and casinos to textile and electronics assembly plants. Employment now: 13,000.

"This is a community that's always aimed high," says Gordon. So does he. The former mayor of Olongapo City, Gordon may run for president of the Philippines in 1998.

—ANDREW TANZ

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Addition is a positive sign, both for the Essar Group, and the country it is resident in, India. While we were building a professionally-led, \$2 billion-asset company, the country's consumer base swelled to an enticing 200 million.

We achieved business leadership in steel, shipping, oil & gas, power, finance and are looking to expand our scope, internationally. India's corporate performance, exhibiting a similar trend, is expected to spurt by 30%. Parallel to our reckoning among the world's largest enterprises, was India's recognition among its 5 premier investment markets. As we achieved strategic integration, the nation reposed faith in a market-driven economy.

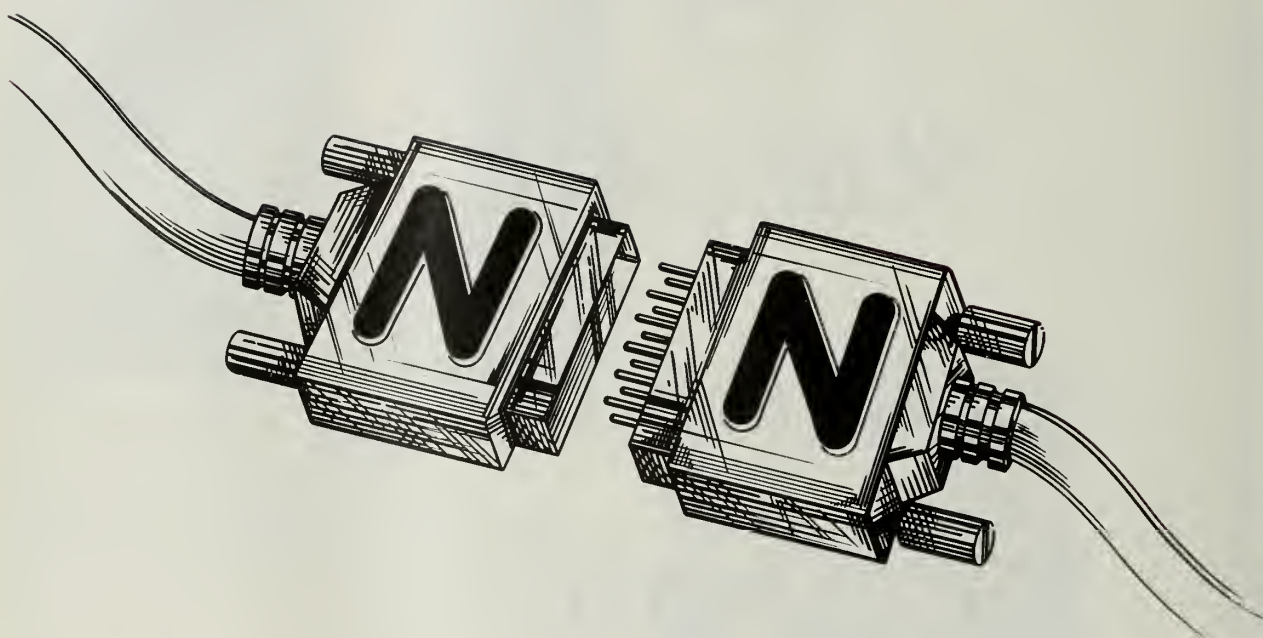
It is only logical today for the world to focus on the new India. Once there, converging on Essar similarly adds up.

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The New York Stock Exchange, of course. "A revolution is taking place in communications, and Newbridge is on the front lines," says Chairman of the Board and CEO, Terence H. Matthews. "We got here by developing and delivering superior networking products that put the tremendous power of multimedia communications within everyone's reach. And to continue doing that, we needed an equally powerful partner." By moving to the NYSE on September 14th, Canada-based Newbridge Networks Corporation (NN) joined a market driven by the most technologically advanced trading system in the world. The NYSE supports growing companies like Newbridge by providing unparalleled access to capital in a market that always puts investors' interests first. And that's something worth talking about.

NYSE
THE NEW YORK STOCK EXCHANGE

Despite a robust economy, most airlines suffered again in 1994. S&P's stock index of four large U.S. carriers is off 30%, and the airlines continued to blast each other with fare cuts.

Contrarian Kevin Murphy, Morgan Stanley's airline analyst, thinks 1995 might mark a turn in the airlines' fortunes. He cites AMR Corp., American Airlines' parent, with a real money-maker in its Latin American service (\$301 million in operating profits over the last reported 12 months). With efforts to cut costs, he thinks AMR (price: 55³/₄) could hit 90.

Another stock favored by Murphy is Delta Air Lines, which lost \$398 million in the last reported 12 months. He thinks with 89% of its employees non-union, Delta should be able to rein in costs and return to profitability this year. Murphy predicts earnings of \$4.50 a share in 1995 for Delta and 1996 earnings of \$5.50. Delta stock was recently at 51.

Special focus

When the Federal Reserve drove up interest rates last year, it drove a number of closed-end bond funds to steep discounts from net asset value. Below are five closed-ends that sell at discounts of 10% or more, emphasize U.S. corporate and/or Treasury bonds and earned Morningstar mutual fund rating of at least a C in the past year and at least a B grade in past bear-bond markets. One of the better buys is Putnam Premier Income, whose portfolio also includes some foreign bonds. The fund rates above average in up and down markets, and is 13% below asset value.

Discounted closed-end bond funds

Fund	Discount
Mentor Income	-14%
Montgomery Street Income	-11
Putnam Master Income	-12
Putnam Master Intermediate Inc	-14
Putnam Premier Income	-13

Through 12/31/94.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	0.2 %	-4.1 %	-7.1 %
S&P/Barra Growth index ¹	-0.4	2.9	-2.3
S&P/Barra Value index ²	1.0	-0.6	-4.6
Dow Jones industrials	0.9	1.2	-3.2
S&P 500	0.1	-1.5	-4.5
NYSE	0.3	-2.9	-6.1
Nasdaq	0.9	-4.5	-7.2
Amex	1.5	-9.4	-11.1
EAFE ³	-0.4	4.1	-5.5
CRB futures index ^{4,5}	0.4	3.6	-7.0
Gold ⁵ (Comex spot)	-1.5	-3.5	-11.1
Yen ⁵ (per \$US)	0.7	-10.4	-37.0
DII ⁵ (W Texas Intermediate)	3.2	14.6	-57.0

The best and worst performing stocks

Best	Price	2-week change	1995 EPS ⁶	Worst	Price	2-week change	1995 EPS ⁶
Interdigital Communications	8 3/8	68%	NA	Grupo Mex de Desarrollo	7 3/8	-48%	\$1.60
Perry Drug Stores	10 7/8	40	\$0.78	Empresas ICA Sociedad	12 3/4	-45	1.86
Health Systems Intl	31 3/4	36	2.06	Viewlogic Systems	9 3/4	-45	1.33
Telxon	13 5/8	30	0.89	Grupo Tribasa	13 1/8	-41	1.98
Circon	15 1/4	27	0.71	Grupo Casa Autrey	18	-30	1.23

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/94	Worst	2-week change	Since 12/31/94
Air transport	8.1%	3.6%	Precious metals	-3.8%	-6.5%
Photographic, optical	8.1	2.2	Electric utilities	-2.8	-0.7
Motor vehicles	6.9	0.0	Beverages	-2.7	-2.1
Trucking	4.7	-3.0	Household prods	-2.1	-1.1
Railroads	3.0	2.9	Retail	-1.6	-0.5

¹ Data for period ending 1/5/95. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. exchanges. ADRs, REITs and closed-end funds are excluded. ² Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ³ Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ⁴ A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁵ Index of 21 commodity futures. Source: Knight-Ridder Financial Publishing. ⁶ Estimate. Source: IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

The biggest new issues¹

Company/business	Exchange	Offer date	Offer price	12/31/94 price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
OfficeMax/office supply stores	n	11/2/94	19	26 1/2	\$ 627	DLJ	39%	142
Sports Authority/sporting goods stores	n	11/17/94	19	21	234	Goldman Sachs	11	112
Guidant/medical devices	n	12/14/94	14 1/2	16	180	Morgan Stanley	10	109
Capital One Financial/bank card services	n	11/15/94	16	16	114	JP Morgan Secs	0	101
JP Foodservice/food services	o	11/15/94	11	9 1/4	86	Smith Barney	-16	85
Young Broadcasting/TV stations	o	11/7/94	19	17 3/4	84	Morgan Stanley	-7	94
CasTech Aluminum Group/cast aluminum sheets	n	10/13/94	14 1/2	15 1/4	83	Merrill Lynch	5	107
Isolyser/disposable medical prods	o	10/20/94	18	18	70	Morgan Keegan	0	102
Falcon Building Prods/home-improvement prods	n	11/2/94	12	11 1/8	70	Merrill Lynch	-7	94
Covenant Transport/long-haul trucking svcs	o	10/28/94	16 1/2	19 1/2	63	Wertheim Schroder	18	122

Performance update

The market for initial public offerings withered in 1994: There were only 488 new offerings, compared with 590 in 1993. Wall Street raised \$19 billion in capital in 1994, a 44% decline from 1993's record level of \$34 billion.

Investors didn't fare very well, either. According to Securities Data Co., IPO stocks rose just 6% on average last year, compared with an average gain of 21% in 1993.

The outlook for 1995? Kathleen Smith, an analyst at Renaissance Capital, an institutional research firm in Greenwich, Conn., expects underwriters to focus less on speculative small-capitalization offerings and more on high-quality established corporations. This trend, says Smith, became evident last year with such deals as OfficeMax and Sports Authority, both former Kmart subsidiaries. The OfficeMax offering on Nov. 2, for \$627 million, was the largest domestic issue of 1994.

This spring Kmart plans to sell off a third operation—Borders Group, a bookstore chain. Another well-capitalized outfit coming to market, says Smith, is a planned \$300 million reverse leveraged buyout of American Standard, the giant plumbing and hardware firm that was taken private in June 1988.

The best new issues¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
Shiva/computer network prods	15	\$ 36	Goldman Sachs	166%	268
Netcom On-Line Comm/telecomm svcs	13	24	Volpe Welty	118	216
Ortel/linear fiber-optic prods	13	49	Morgan Stanley	102	205
EPIC Design Technology/integrated circuits	13	26	Alex Brown & Sons	73	174
Micrel/integrated circuits	9	24	Hambrecht & Quist	61	157

The worst new issues¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
7th Level/multimedia software	10	\$35	DLJ	-48%	54
WavePhore/data broadcasting	11	18	RAF Financial	-45	55
What A World!/science & nature gift stores	5	5	Whale Secs	-35	66
Sugen/pharmaceuticals	7 1/2	20	Morgan Stanley	-32	69
Singing Machine/karaoke equip & software	5	6	JW Charles Secs	-30	71

The most active investment bankers³

Industries going public³

Underwriter	Total offerings	Total raised (\$mil)	Industry	Total offerings	Total raised (\$mil)
Goldman Sachs	17	\$2,179	Manufacturing	175	\$6,699
Morgan Stanley	18	1,846	Services	73	1,673
Merrill Lynch	11	1,337	Retail	20	1,247
DLJ	15	1,328	Natural resources	8	987
Lehman Brothers	14	979	Insurance	8	847

Note: This report covers initial public offerings of common equities with offer date of 10/1/94 to 12/31/94, offering price of \$2.50 or more and offering value of \$5 million or more. Closed-end funds, limited partnerships and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. ¹Last quarter. ²The ending value of \$100 invested in the stock, divided by the ending value of \$1 invested in the market. ³Latest 12 months. Source: Securities Data Co.

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SMITH BARNEY FMA	\$100	Yes	No	No	No	No	\$10,000
PRUDENTIAL COMMAND ACCOUNT	\$100	Yes	No	No	No	No	\$10,000
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Investment letters often make extravagant claims. Herewith the Forbes/Hulbert survey puts those claims to the test.

Measuring the market mavens

By Mark Hulbert

THERE ARE THREE WAYS to manage a stock portfolio. You can do it yourself, you can hire someone to do it for you or you can hire someone to help you do it yourself.

The last solution may mean subscribing to an investment letter. Most of Wall Street looks down its nose at this subculture within the advisory industry: What's an investment letter but a little tout sheet? The fact is, though, that the best of these letters compare well against the other stock pickers on Wall Street. A lot of people know this, which explains why the letter business isn't small, with a com-

bined circulation of perhaps 2 million and revenue of \$500 million.

As with mutual funds, so with letters: There is a great expanse of mere average stock pickers, whose customers would be better off in a passive index fund. But there are a handful of investment letters, as there are funds, that do add value for their customers.

Our Honor Roll of the best investment letters (*see table*) isn't merely the ones that went up the most. It's the ones that delivered the best returns in relation to the risks they took. To get on this list a letter had to do better than average in both good and bad

Honor Roll

Performance UP DOWN —markets—	Newsletter	—Total return— annual average		Risk ¹	Relative Sharpe ratio ²
		6/83 to 11/94	8/87 to 11/94		
A	Chartist	13.8%	11.2%	high	1.7
■B	Investment Quality Trends	NA	11.1	low	2.2
■B	Investors Intelligence	NA	8.9	low	1.5
B	Systems and Forecasts	11.5	10.2	very low	2.6
■A	Value Line Convertibles	NA	12.2	average	2.2
B	Zweig Forecast	12.2	10.2	low	2.1
B	Zweig Performance Ratings Report	11.9	10.1	very low	2.3

Rating the market letters

Performance UP DOWN —markets—	Newsletter	Editor	Phone number	Annual subscription price	—Total return— annual average		Risk ¹	Relative Sharpe ratio ²
					6/83 to 11/94	8/87 to 11/94		
C	Addison Report	Andrew L Addison	508-528-8678	\$190	7.4%	4.7%	low	0.0
■B	Better Investing	Donald Danko	810-583-6242	20	NA	4.7	high	NM
A+	BI Research	Tom Bishop		90	NA	13.3	very high	1.9
B	Big Picture	Stephen Leeb/Walter Pierce	800-832-2330	127	5.0	9.0	high	1.3
■B	Bob Brinker's Marketimer	Robert Brinker	800-700-1030	185	NA	5.5	average	NM
C	Bob Nurock's Advisory	Robert Nurock	800-227-8883	247	NA	2.5	low	-0.9
B	Cabot Market Letter	Carlton Lutts	508-745-5532	250	3.7	4.8	high	NM
■B	Cabot's Mutual Fund Navigator	Timothy W Lutts	508-745-5532	125	NA	6.9	low	0.8
C	California Technology Stock Letter	Michael Murphy	415-726-8495	295	4.2	9.0	average	1.3
A	Chartist	Dan Sullivan	310-596-2385	150	13.8	11.2	high	1.7
F	Dines Letter	James Dines	800-845-8259	195	-1.7	-12.7	very high	-3.2
B	Dow Theory Forecasts	Charles Carlson	219-931-6480	233	8.7	3.5	average	-0.3
A	Emerging & Special Situations	Robert Natale	800-221-5277	241	7.2	6.7	high	0.7
■B	Equities Special Situations	Robert J Flaherty	800-237-8400	150	NA	4.0	high	NM
C	Fabians' Investment Resource	Douglas Fabian	800-950-8765	137	6.6	7.1	low	0.8
■A	Fidelity Monitor	Jack Bowers	800-397-3094	96	NA	13.2	high	2.3
■C	Fund Exchange	Paul Merriman	800-423-4893	125	NA	8.1	very low	1.9

All data through Nov. 30; ratings cover letters with a predominant equity focus. ■ Newsletter rated for two periods only. NA: Not available or not applicable. NM: Not meaningful. ¹Measured by volatility of monthly returns since Aug. 31, 1987. ²Measures how effectively a newsletter has delivered returns commensurate with its risk level. A portfolio just as good as the market in delivering reward for risk gets a score of 1.0. A score between 0 and 1.0 means the newsletter portfolio be-

Rating the market letters

Performance IP DOWN —markets—	Newsletter	Editor	Phone number	Annual subscription price	—Total return— annual average 6/83 8/87 to 11/94 to 11/94		Risk ¹	Relative Sharpe ratio ²
A ■ C	Fundline	David Menashe	818-346-5637	\$127	NA	10.7%	high	1.7
A ■ F	Granville Market Letter	Joseph Granville	800-876-5388	250	-27.1%	-19.5	very high	0.0
C ■ B	Growth Fund Guide	Walter Rouleau	605-341-1971	99	6.3	3.0	very low	-1.0
D ■ A	Growth Stock Outlook	Charles Allmon	301-654-5205	195	7.0	6.4	very low	-0.1
D ■ A	Harry Browne's Special Reports	Harry Browne	800-531-5142	225	6.3	2.7	very low	-2.2
A ■ D	Insiders	Norman Fosback/Glen King Parker	800-442-9000	49	NA	9.3	very high	1.3
D ■ B	International Harry Schultz Letter	Harry Schultz	321-653-3684	275	0.0	-2.3	average	-2.1
C ■ A +	Investech Market Analyst	James B Stack	800-955-8500	175	NA	7.5	very low	1.4
C ■ A	Investech Mutual Fund Advisor	James B Stack	800-955-8500	175	NA	7.7	very low	1.6
C ■ B	Investment Horizons	Gerald Perritt	800-326-6941	195	NA	6.1	low	0.4
B ■ B	Investment Quality Trends	Geraldine Weiss	619-459-3818	275	NA	11.1	low	2.2
B ■ B	Investment Reporter	David Driscall	416-869-1177	257	NA	5.8	high	0.5
A ■ C	Investor's World	John Dessauer	800-777-5005	195	11.7	7.1	high	0.8
B ■ A	Investors Intelligence	Michael Burke	914-632-0422	184	NA	8.9	low	1.5
D ■ A	Kinsman's Stock Pattern Recognition Svc	Robert Kinsman	707-935-6504	995	5.2	2.9	very low	-1.7
C ■ C	LaLoggia's Special Situation Report	Charles LaLoggia	716-232-1240	230	NA	3.3	high	-0.2
C ■ B	Margo's Market Monitor	Margo Parrish	617-861-0302	125	NA	1.8	average	-0.9
B ■ D	Market Logic	Norman Fosback/Glen King Parker	800-327-6720	95	8.0	5.0	average	NM
C ■ A	Marketarian Letter	Gerald Theisen/Jeff Helleberg	800-658-4325	225	NA	5.5	low	NM
A + ■ D	Medical Technology Stock Letter	James McCamant	510-843-1857	320	NA	-1.7	very high	NM
C ■ B	Moneyletter	Peter Crane	508-881-2800	127	NA	6.0	low	0.4
A + ■ D	MPT Review	Louis Navellier	702-831-1396	275	NA	15.5	very high	2.1
C ■ C	Mutual Fund Forecaster	Norman Fosback/Glen King Parker	800-327-6720	49	NA	8.7	high	1.2
D ■ A	Mutual Fund Investing	Jay Schabacker	800-777-5005	100	NA	5.9	very low	0.4
C ■ A	Mutual Fund Letter	Gerald Perritt	800-326-6941	79	NA	6.4	very low	0.7
C ■ A	Mutual Fund Strategist	Charlie Hooper	802-425-2211	149	NA	6.1	average	0.5
A ■ D	New Issues	Norman Fosback/Glen King Parker	800-327-6720	95	5.1	12.4	very high	1.8
B ■ B	No-Load Fund Investor	Sheldon Jacobs	914-693-7420	119	NA	7.4	low	1.0
A ■ C	NoLoad Fund X	Burton Berry/Janet Brown	415-986-7979	119	9.0	5.5	average	NM
F ■ B	Option Advisor	Bernard G Schaeffer	800-327-8833	180	-10.0	-6.9	very high	-0.6
A + ■ D	OTC Insight	James Collins	800-955-9566	295	NA	19.3	very high	2.4
B ■ C	Outlook	Arnold Kaufman	800-852-1641	298	8.0	4.0	average	-0.3
C ■ B	Personal Finance	Stephen Leeb	703-548-2400	59	NA	6.2	low	0.5
D ■ A +	Peter Dag Portfolio Strategy and Mgmt	George Dagnino	800-833-2782	250	8.2	7.1	very low	1.1
B ■ A	Princeton Portfolios	Michael Gianturco	609-497-0362	225	9.6	2.6	very high	0.0
D ■ B	Professional Tape Reader	Stanley Weinstein	305-981-5963	395	-1.3	0.4	very low	-4.5
D ■ B	Professional Timing Service	Curtis Hesler	406-543-4131	185	2.4	4.8	low	-0.1
A + ■ F	Prudent Speculator	Al Frank	310-587-2410	175	6.8	-0.9	very high	NM
D ■ C	Ruff Times	Howard Ruff	510-278-1900	149	1.6	0.4	average	-1.5
D ■ C	Sector Funds Newsletter	Cato B Ohrn	619-748-0805	117	NA	-1.4	high	-1.0
D ■ A	Stockmarket Cycles	Peter Eliades	707-579-8444	252	NA	6.3	low	0.5
D ■ A +	Switch Fund Timing	David G Davis	716-385-3122	119	NA	8.7	very low	1.7
B ■ A	Systems and Forecasts	Gerald Appel	516-829-6444	225	11.5	10.2	very low	2.6
C ■ C	United & Babson Investment Report	Donald D Fox	617-235-0900	238	2.2	-0.5	average	-1.7
A ■ B	Value Line Convertibles	F Barry Nelson	800-634-3583	475	NA	12.2	average	2.2
A ■ D	Value Line Investment Survey	Stephen Sanborn	800-634-3583	525	11.1	9.4	high	1.3
A ■ D	Value Line OTC Special Situations Service	Peter A Shraga	800-634-3583	390	7.4	9.5	very high	1.3
D ■ D	Wall Street Digest	Donald H Rowe	813-954-5500	150	NA	-3.0	very high	-1.3
F ■ A +	Your Window Into The Future	James Moore	612-537-8096	99	NA	-31.6	very high	-2.2
B ■ A +	Zweig Forecast	Martin Zweig	516-223-3800	265	12.2	10.2	low	2.1
B ■ A	Zweig Performance Ratings Report	Michael Schaus	516-223-3800	205	11.9	10.1	very low	2.3
A ■ C	Wilshire 5000 Total Return Index				12.0	7.8	average	1.0

less Treasury bills but didn't achieve the market's reward-to-risk performance. A score below 0 means the portfolio did worse than T bills.

Source: Hulbert Financial Digest.

markets. That's no mean feat. Most investment styles do well in either bull markets or bear ones, but not both.

The FORBES/Hulbert Survey of Investment Letters was created by feeding the *Hulbert Financial Digest's* 14½-year performance database for investment letters into the FORBES system for grading mutual funds. To make the Honor Roll a letter had to earn a grade of B or better in both up and down markets. Furthermore, the ratio of its performance to its risk had to be greater than the market's (signified in the table by a relative Sharpe ratio greater than 1.0).

You will note that the top overall performers don't make the Honor Roll. That's the way we intended it: We are looking for consistent performance in both bull and bear markets. For the period beginning at the 1987 precrash high, for example, the top performers are *OTC Insight* and *MPT Review*, with annualized gains of 19.3% and 15.5%, respectively. This is far ahead of the 7.8% compound return for the stock market itself. Yet these impressive returns came with a steep price: D grades for down-market performance.

The FORBES system for awarding grades works this way: We compare performances with market averages, adjusted to moderate the impact of winning and losing streaks and to accentuate more recent results. The performances are then graded on the curve: The best 5% get A+; the next 20%, A; the next 25%, B; the next 25%, C; the next 20%, D; the bottom 5%, F.

Up periods as defined by FORBES were July 31, 1984 to Aug. 31, 1987; Nov. 30, 1987 to May 31, 1990; and Nov. 30, 1990 to Nov. 30, 1994. The down periods consist of the remaining months since June 30, 1983.

The *Hulbert Financial Digest's* performance calculations simulate the real-world experiences of a typical investment letter subscriber. That is, they take into account mail delays, commissions, transaction costs and dividends. For this survey we focused on portfolios that are predominantly equity oriented, excluding those that focus on gold, bonds or international investments. If a letter had more than one eligible portfolio, it was graded on their average performances. ■

They've treated investors well, but convertible bonds aren't much in favor. In that neglect lies opportunity.

The zeal of the convert

By Jason Zweig



Kenneth Chen

Barry Nelson
of Value Line
Convertibles
**Heads you win a
quarter, tails you
lose a dime.**

F. BARRY NELSON, 52, is lunching at a midtown Manhattan hotel when a fire alarm goes off. His eyes rake the room: "There's an exit sign right over there," Nelson reassures his jumpy lunch companion. He resumes eating.

Leave it to Nelson to look for exits. He runs the *Value Line Convertibles Survey*, and safety features are what convertibles are about. Convertible bonds and convertible preferred stock are half-breeds that blend the traits of stocks and bonds. If the company's stock goes up enough, the holder could profit by changing the bonds into stock; if the stock does poorly, the holder hangs on to the bonds and collects interest. Exits on both sides.

According to Ibbotson Associates,

the Chicago-based securities searchers, convertibles have returned 12% compounded annually over the past two decades, outperforming common stocks by a hair, but fluctuating 30% less sharply. The *Hulbert Financial Digest* reckons that Nelson's *Value Line Convertibles Survey* newsletter, which tracks 585 convertibles, has returned 12.2% compounded annually since Aug. 31, 1987, beating the stock market by more than four percentage points per year while incurring slightly less risk. Hulbert gives the Value Line letter an A grade for its performance in up markets, a B in down.

Are converts a good thing? Probably. A sure thing? Hell, no. They

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Shock absorbers

Convertible	—Recent price—		—Current yield—		—Conversion—		Fixed-income value	Price sensitivity if stock:	
	convertible	common	convertible	common	value	premium		+ 50%	−50%
Best buys									
Air Express Intl 6% of 2003	\$940	18¾	6.4%	0.9%	\$826	14%	\$780	+35%	−13%
Beverly Ent's 7% of 2003	933	14¼	8.2	—	696	34	940	+23	0
Delta Air Lines 3.23% of 2003	684	49%	4.7	0.4	629	9	580	+40	−13
General Motors C \$3.25 pfd	578	38%	5.6	1.2	544	6	370	+40	−25
Alexander Haagen 7.5% of 2001	873	15%	8.6	9.4	854	2	830	+45	−5
ICN Pharmaceuticals 8.5% of 1999	953	17%	8.9	1.5	728	31	870	+25	−4
Price/Costco 6¼% of 2001	908	12½/16	7.4	—	574	58	910	+15	0
Time Warner 8¼% of 2015	943	33¾	9.3	1.1	710	33	890	+18	−5
Worst buys									
American Brands 5¼% of 2005	1140	35¾	5.0	5.6	905	26	980	+19	−14
Enron \$10.50 pfd	420	29%	2.5	2.7	404	4	100	+45	−50
Hecla Mining \$3.50 pfd B	46	10	7.6	—	32	44	30	+19	−25
Quixote 8% of 2011	880	11¼	9.1	2.0	592	49	650	+13	−20

Source: Value Line.

These best buy convertibles, figures Barry Nelson of Value Line, offer much of the potential gain of the underlying common stocks with far less risk. The worst buys, however, promise roughly as much risk as gain.

tend to lose less when stocks are crashing; the 1987 market tumble knocked 31% of the value off stocks but just 18% off converts. But when stocks and bonds do badly in tandem, converts offer precious little shelter. In early 1966, as the Federal Reserve raised rates and both stocks and bonds fell, "convertibles got massacred," recalls Richard Wilson of Fitch Investors Service, the bond rating agency.

Last year, in similar straits, converts fell 5%, versus the 1% gain by stocks and the 3% lost by corporate bonds, according to Salomon Brothers. So they're not the Holy Grail, but any smart investor will consider using them.

The key to Value Line's rankings of converts from 5 (lowest) to 1 (highest) is its price sensitivity ratio. This measures how much each convert is likely to move when the underlying common stock makes a given move.

This ratio matters because convertible prices seldom move in lockstep with prices of the underlying shares. The ideal convert will be considerably more sensitive to gains in the stock than to declines. Nelson calls this "maximum asymmetrical leverage."

Take Delta Air Lines' 3.23% due in 2003, convertible into 12.7 common shares. With the stock recently at 49½, the bond is equivalent to \$629 in Delta common. It traded lately at \$683, 9% above its stock conversion value. As a bond alone, its fairly low

coupon would make it worth just \$580. So there's a premium there of about \$100 over the value as a bond and about \$50-odd over its value if it were converted right now.

Why the premium? Because the conversion privilege is an option that has value in its own right. And because it is a way to participate in the potential of this low-dividend stock while earning a cash return of 4.7%.

What's the leverage? Value Line calculates that this convert would rise 40% if the stock went up 50%, but would lose only 13% if the stock fell by half. As Nelson would say, asymmetrical leverage.

At first blush this asymmetry seems to slant much too far in favor of the Delta convertible bond. But in fact, the numbers suggest only a slight advantage to the bond. An investor could get close to 8%, guaranteed, on a Treasury zero due in 2003. In these conditions it would make no sense to buy risky Delta common shares, with a meager dividend, unless they were expected to appreciate better than 8% a year. In short, Delta common is far more likely to climb 50% between now and when the bond matures than to fall 50%.

Now look at the 7% of 2003 issued by Beverly Enterprises, convertible into 48.9 common shares. With the stock at 14¼, the bonds have a conversion value of \$696. But

they trade at \$933, since their relatively high coupons give them a pure bond value of \$940. At this price, the option to convert comes free. The convert pays an 8.2% current yield; the common pays no dividend. Here the Value Line model projects a 23% price rise if the stock goes up 50%, but no loss at all with a 50% fall in the stock. This convert, then, behaves like a bond with a faint stock flavor.

Value Line gives both the Delta and the Beverly converts its highest rating, since each provides an attractive though very different blend of risk and reward. "The model does mix apples and oranges a bit," says Nelson. "Its recommendations run the gamut from pure stock surrogates to pure bond surrogates."

For all their intriguing features, convertibles are currently not much in fashion. *Value Line Convertibles Survey* (\$625 for 48 issues per year) has only 2,000 subscribers, about half of them individual investors. The subscriber rolls are down about one-third from 1987. The Value Line Convertible Fund, despite respectable performance and low costs (no sales charge, 1.08% annual expense ratio), has just \$50 million in assets. That's down almost half from 1987.

"This is a tiny, trivial niche that has not grown despite excellent performance," says Nelson. Say we: In markets, neglect breeds opportunity. ■

60 YEARS AGO, BOBBY JONES AND CLIFFORD ROBERTS OFFERED A FEW SELECT FRIENDS SIMILAR OPPORTUNITY.



fortunate few became part of one of golf's most treasured institutions. Membership in a club created exclusively for golf lovers.

the decades, the waiting lists to such venerable venues grown longer than a 625-yard par five - making membership nearly unreachable.

h. was, until now.

THE WAITING IS OVER.

Founders of recently-opened Naples National Golf Club share the same principles and passion for the game that led to the clubs like Augusta National, Seminole and Pine Valley. A small number of members to maximize year-round playability and enjoyability. An inherent understanding that highly successful people prefer to associate with people of similar accomplishments, standards and ideals. And last but not least, a great golf course. The main difference between Naples National and the Augusta National of the world is that Naples National still has a few memberships available.

MAKING GOLF HISTORY.

In Bobby Jones was planning the Augusta National layout, he sought out the one architect who could best execute his plans: Dr. Alister Mackenzie, whose masterpieces include two of *Golf Digest's* top three courses in America. When planning Naples National layout, the club's founders selected Dr. Michel Hurdzan, whose masterworks include *Golf Digest's* two new Canadian Private Courses of 1991 and 1992.

Like Dr. Mackenzie, Dr. Hurdzan believes in the tradition of making the most of native terrain. In this case, centuries-old stands of cypress and pine, marshland and sand. The end result is simply stunning. Those privileged enough to have played Pine Valley will immediately pick up on striking (and often harrowing) similarities. Rugged sand scrub waste areas bordering meticulously manicured fairways.

Hurdzan's overall design is a throwback to the historic courses of 60, 70, 80 years ago. No island greens. No railroad ties. No gimmicks. And no need for Daly-esque length. Still and all, from the tips, this par 72 tops out at well over 7,000 yards - giving even low handicappers a high degree of difficulty and reward.

No expense has been spared in design - or maintenance. Every round will be played in tournament level conditions.

A VERY PRIVATE PROPERTY.

With just 275 members - most of whom reside outside Florida and abroad - you'll be able to play whenever you please. Some days, you may have the course all to yourself. Here, getting in 18 in under four hours is par for the course, whether riding, or walking with an experienced caddie. The only spectators are the wildlife who cohabit this scenic sanctuary. You see, at Naples National, you're surrounded by nature. Not houses or condos. This is, after all, an exclusive golf club. Not a real estate development. No noisy pools. No tennis. No afternoon teas. Just 18 tees and greens. Pure, unadulterated golf heaven.



ITALIAN RENAISSANCE STYLE AND GRACE, IN 1995.

The three story, Italian Renaissance clubhouse is already underway towards its completion in '95. Consummate locker rooms and a world-class golf shop are just the beginning...twelve elegant guest suites, many replete with fireplaces; all with twenty-four hour services.

Just seconds away from any suite will be a superlative library which even lends entertainment and instructional videos and CDs for enjoyment in your suite. A lounge, mixed grill and a truly intimate dining room will serve first-class fare, or experience outdoor dining on the breathtaking Garden Terrace. Rest assured, your every need will be catered to.

CLUB CHAMPIONS.

As you might expect, a new golf club with such high standards has already attracted high profile members. Chairmen and CEOs of Fortune 500 corporations. Champions of international commerce, entertainment and sports, like former Masters and U.S. Open champ Fuzzy Zoeller. The list is most impressive. So, of course, are the fees. But as long as there are golfers who can afford the best the game has to offer, Naples National will continue to provide it.

THE ULTIMATE GOLF LESSON.

Ask anyone who, years ago, might have passed up the opportunity to join an exclusive golf club like Augusta National, if they ever regretted their decision. You already know how they'd answer.

Naples National is one of those once-in-a-lifetime opportunities. To belong to a club where the membership will be cherished. Now and forever. Proudly passed from generation to generation.

You've worked hard to arrive at this moment. You've developed an affinity for the game that borders on obsession. You've fantasized about a scenario like this for years.

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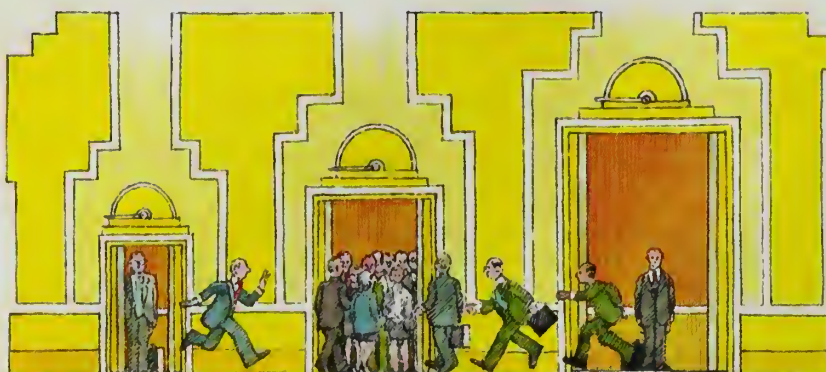
NAPLES NATIONAL

GOLF CLUB



Mutual funds come in all flavors.
Now they come in all sizes as well.

Happy medium



Chas. B. Sackman

IT'S ALWAYS BEEN EASY to buy T shirts, popcorn or Slurpees in small, medium and large sizes. But until recently, stock funds have seemed to come only in two basic sizes: small and large. Some funds stick to blue-chip behemoths like General Electric, while others go after the likes of Zycad (market value, \$28 million).

But leave it to the folks who market mutual funds. Now you can buy "mid-cap" funds. What's a mid-cap? Just what you'd expect. Bigger than small-cap, smaller than big-cap. The bulk of the companies in Standard & Poor's MidCap 400 Index have common stock capitalizations (that is, market values) between \$300 million and \$4 billion; the Russell Midcap Index covers about 800 companies, mostly between \$700 million and \$4.5 billion in value. By number, some 20% of U.S. companies are mid-caps; by market value, they make up about 30%.

At the end of 1991 Lipper Analytical Services tracked 42 such funds with \$12 billion in total assets. At last count, there were 99, with \$32 billion among them.

Of course, the industry brought out all these new funds because it could see the public would buy them. No surprise that the sponsors have developed rationalizations for the category. Brian Berghuis, who runs T. Rowe Price Mid-Cap Growth Fund (assets, \$100 million), argues thus: "Over the long term," he explains,

"mid-caps provide returns very close to those of small-caps, yet with significantly lower volatility." Berghuis claims that from 1926 to the end of 1993, medium-size stocks returned 11.4% compounded annually, nearly tying the 11.8% return on small stocks. But the mid-caps exhibited only about 80% of the risk. Over the same period, big stocks had only 60% of the risk of small stocks, but compounded at just 9.7%.

What's the catch?

The catch is that mid-cap is in the eye of the beholder—or, rather, in the eye of the fund promoter. "There's a lot of definitional fuzz in this area," says Jennifer Uhrig, who runs Fidelity Mid-Cap Stock Fund (assets, \$126 million). Uhrig defines a mid-cap as any stock between \$50 million and \$8

billion in market value, the outer limits of the S&P MidCap 400 Index. IAI Midcap Growth Fund, by contrast shops for stocks between \$1 billion and \$3 billion in market value.

In short, labels are subjective. One man's mid-cap is another man's big cap. And, no matter how they define mid-caps, most of these funds are required to dedicate only 65% of assets to them. The Federal National Mortgage Association (market cap \$20 billion) is one of Uhrig's top ten holdings at Fidelity Mid-Cap Stock. Westcore Midco Growth has 1.4% of its assets in Capital Cities/ABC (\$1.1 billion), another 1% in Home Depot (\$20 billion).

Remember, too, that 30% of the stock market was not exactly ignored until the mutual fund business finally christened it with a snappy name. Plenty of good funds—Lindner Nicholas, Twentieth Century Ultra Investors, even Vanguard's Extended Market index fund—have long specialized in medium-size stocks without branding themselves "mid-cap." Mid-cap funds are more a new name than a new idea.

While not as novel as they sound, mid-cap funds can be useful diversifiers. Two good no-load choices are Fidelity Mid-Cap Stock and T. Rowe Price Mid-Cap Growth. Among the favorite stocks of Fidelity's Uhrig are textile maker WestPoint Stevens, publisher Gannett, Softkey Software Products and KinderCare Learning Centers. T. Rowe's Berghuis likes office products supplier Alco Standard, Italian eatery Sbarro and the drugstore chain Revco. —J.Z.

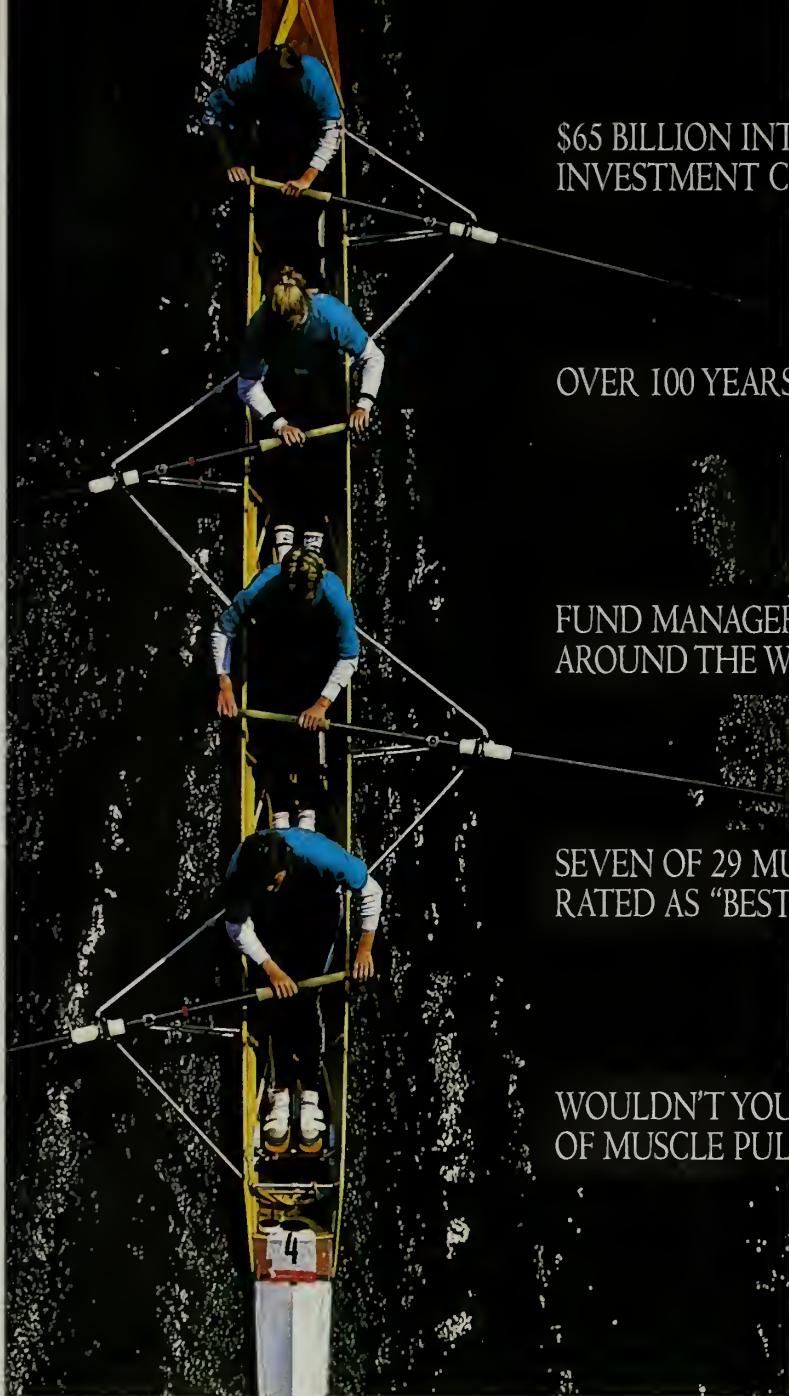
Muddle in the middle

Fund	Mid-cap range (\$mil)	Net assets (\$mil)	1994 total return	Annual expenses per \$100
Federated Mid-Cap	— ¹	\$39	-4.3%	\$0.60
Fidelity Mid-Cap Stock	\$50-\$8,000	126	8.4	2.06 ²
IAI Midcap Growth	1,000-3,000	74	5.7	1.25
Monetta Mid-Cap Equity	1,000-5,000	12	2.2	1.12
Peoples S&P MidCap	— ¹	71	-4.0	0.09 ³
T Rowe Price Mid-Cap Growth	300-4,000	100	0.3	1.25
Wasatch Mid-Cap	500-5,000	1	8.1	1.74

¹Fund mirrors Standard & Poor's MidCap 400 Index; range approximately \$50 million to \$8 billion. ²Annualized. ³Net of expense absorption by fund sponsor.

Sources: Lipper Analytical Services; Forbes.

These no-load funds say they invest in medium-capitalization stocks, but their definitions of mid-cap are all over the map.



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VIEWPOINT

Commerzbank's focus on German and European economic issues 1/95

German economy in 1995: no signs of overheating

Western Germany's unexpectedly strong upswing in 1994 has raised fears that overheating associated with inflationary pressures and monetary tightening might follow later in 1995. But these fears are hardly supported by the facts. Low wage settlements and a significant further rise in the tax burden will keep a lid on domestic demand. An increase of 2½% in western Germany's real GDP, and 3% for Germany as a whole, will be almost in line with the potential output growth.

IS THE CURRENT upswing strong or weak? It is certainly strong compared with expectations at the start of 1994, when growth of under 1% was being forecast. Yet it is rather weak if potential output is used as the yardstick, given the sharp fall in capacity utilization.

THE DATA for GDP and manufacturing output also diverge. While GDP was almost 1% higher by end-1994 than it was early in 1992, before the downturn began, manufacturing output is still 5% lower. Such disparities have left not only the public but also the financial markets puzzled. They have prompted questions about the future course of monetary policy as well. What does 1995 hold in store?

International presence:

Alma-Ata, Amsterdam, Antwerp, Atlanta, Bangkok, Barcelona, Beijing, Bombay, Brussels, Budapest, Buenos Aires, Cairo, Caracas, Chicago, Copenhagen, Dublin, Geneva, Gibraltar, Grand Cayman, Hong Kong, Istanbul, Jakarta, Johannesburg, Kiev, London, Los Angeles, Luxembourg, Madrid, Manama, Mexico City, Milan, Minsk, Moscow, New York, Novosibirsk, Osaka, Paris, Prague, Rio de Janeiro, São Paulo, Seoul, Shanghai, Singapore, St. Petersburg, Sidney, Tehran, Tokyo, Toronto, Warsaw, Zurich.

THE KEY FEATURES of the recovery remain unchanged in the new year. The gap between private and government consumption on the one hand, and business investment and exports on the other, will widen. Indeed, by end-1995, private and government consumption, which together account for three-quarters of GDP, should be only a real 2½% higher than at the bottom of the recession in early 1993, but capital spending and exports will probably have risen by 11%. The demand of private households will be damp-

lower in 1994 than in 1990 and 1 point lower than its 1985-1989 average.

MODERATE PAY SETTLEMENTS are vital for sustained growth. We expect hourly wage rates in the private sector to go up by 3% at most. This would be compatible with a marked upturn in business investment.

LAST BUT NOT LEAST, it is feared that the strong monetary expansion up to mid-1994 might fuel inflation in 1995, prompting the Bundesbank

Outlook for western Germany*

at constant prices; percentage change on year

	1994 ¹⁾	1995
Private consumption	1.2	0.5 (1.0)
Government consumption	0.0	0.5 (1.0)
Machinery and equipment	-3.0	6.0 (6.5)
Construction	3.5	2.0 (5.0)
Domestic demand	1.8	1.5 (2.0)
Exports	7.1	6.0 (7.5)
Imports	6.5	4.5 (5.0)
Gross Domestic Product	2.3	2.5 (3.0)
Consumer prices	3.0	2.5

*) figures in parentheses include western and eastern Germany; 1) January - September

ened by moderate pay increases, rather weak employment growth and substantially higher taxes and social-security contributions. Government consumption will be curbed by fiscal consolidation efforts.

THE SHARP RISE in long-term interest rates will slow residential construction in 1995. By contrast, business investment will hardly be affected as profits will stage a strong recovery, albeit from a very low level. In the economies of Germany's major Western European trading partners, the upswing is gathering momentum and capital spending is rising – to the benefit of German exporters.

DEVELOPMENTS in three areas could change the outlook, though. For one thing, private households might once again save less in 1995. However, the savings ratio was already a good 2 percentage points

to raise its key lending rates. But the size of the monetary overhang cannot be reliably estimated due to the various factors involved – German unification, EMS crises, and the withholding tax. What is more, wage and fiscal restraint, as well as tougher international competition should all prevent a resurgence of inflation in 1995.

DOMESTIC DEMAND in Germany is growing at such a modest pace that it will neither cause the economy to overheat in the near future, which would threaten price stability, nor will it make much of a dent in unemployment.

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ast year a diversified portfolio of junk bonds outperformed high-quality U.S. Treasurys. Here's a lesson here.

Risk pays

BY DAVID P. GOLDMAN



David P. Goldman is a managing director in Bear, Stearns & Co.'s Financial Analytics & Structured Transactions Group.

LAST YEAR was not an auspicious one for starting a bond column. The average piece of U.S. Treasury paper delivered a total return (including interest) of -4%. Investors who took my advice, though, didn't fare too badly. My first column, Apr. 25, concluded: "In the long run, I think the Fed will get the better of inflation expectations. In the short run, safety is the best strategy." I predicted bonds were going lower.

Not until the June 30 issue did I advise bond investors to venture into the market—and then cautiously. In the annual FORBES "Money Guide" I compared two bonds with similar interest rate risk, namely an 8.5% coupon Ginnie Mae 30-year mortgage pool and a Treasury bond due in May 2011. My advice was: Go for the mortgage security and reject the Treasury. The price of both bonds was the same, but with interest thrown in the total return on the Ginnie Mae was a positive 1.6%, while the Treasury 8% bond, in contrast, returned a negative 0.5%.

My big embarrassment, of course, was that headline on my Dec. 5, 1994 column: "Take a chance on Mexico." But if you read the whole column, you know that was only part of what I said. My point was that, even though

individual countries like Brazil, China and Mexico are risky, a diversified package of their bonds could add a fair amount of return to a U.S. bond portfolio over the long pull while increasing its risk only a little.

Specifically, the column suggested that a weighting of 10% to 20% in emerging market debt would make sense for a fixed-income investor who would otherwise have been 100% invested in moderate-risk, seven-year Treasurys. For a bolder player I cited a mix of 40% U.S. bonds, 40% emerging market bonds and 20% European bonds as an optimal position on the risk/reward curve.

How did those hypothetical portfolios fare? From Nov. 21, the approximate arrival time of the Dec. 5 FORBES, through Dec. 31, a seven-year Treasury had a total return of 1.1%. A mix of 85% seven-year T notes, 15% emerging market debt had a return of 0.4%, using the J.P. Morgan Emerging Market Bond Index. The 40-40-20 blend would have returned a -1.1%.

I still like the idea of enriching the yield on bond portfolios with an admixture of developing nation debt. Since Dec. 19, many Mexican bonds have lost more than 10% of their

I still like the idea of enriching the yield on bond portfolios with an admixture of developing nation debt.

market value. Other emerging markets, especially those in Latin America, fell in sympathy (although some oil company bonds rose). Does this present a buying opportunity?

Yes, but remember my original advice: Don't overdo Mexico or any

other single country. That's the whole idea: Spread the risk. In Latin America, don't overlook Venezuela and Brazil.

If you do decide to invest in a package of developing nation debt, lean toward corporate rather than government bonds from those countries. If disaster strikes as it did in Mexico, neither government nor corporate bonds will be spared. But the corporates generally yield more. Dollar-denominated five-year bonds issued by the highest-grade Mexican corporations now yield 13% to 14%, or 5 to 6 percentage points above U.S. Treasurys. The Cementos de México 10s of November 1999, for example, yield 13.3%.

Despite having had a less than banner year, I reiterate the advice given in my Oct. 10 column, which is that a diversified portfolio of bonds, including some junk, can be safer than seemingly ultrasafe investments like U.S. Treasury bonds. Long-term Treasurys turned out to be the biggest losers during 1994, with a total return of -7.5%.

Every so often junk will have a very bad year, like 1989. Notwithstanding that crash, the sector outperformed all other fixed-income asset classes (and broke even with equities) between 1980 and 1994. It's very simple: The extra yield in junk securities more than compensates for the extra degree of risk.

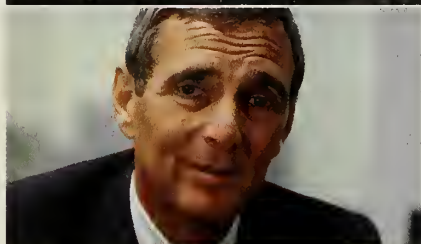
Here's what I would recommend for a moderate-risk investor with a \$100,000 fixed-income portfolio. Put \$25,000 in one- or two-year U.S. Treasurys; \$25,000 in a fund that owns junk-quality U.S. corporate bonds; \$25,000 in a fund that owns Ginnie Maes or similar mortgage paper; and \$25,000 in a well-diversified international bond fund with about half its investments in emerging market debt and the rest in industrial companies.

Conservative investors who won't sleep well holding such risks should keep the Ginnie Maes and short Treasurys but put less in riskier bonds. They should also take the time to learn about investment alternatives that yield much more than cash but without a lot of risk, like the adjustable-rate mortgages I discussed here on Jan. 2.

Orange County's financial disaster has created a buying opportunity in tax-free, closed-end muni funds.

Fallout

BY DAVID DREMAN



David Dremán is chairman of Dremán Value Management, L.P., Investment Counsel, New Jersey, and author of *The New Contrarian Investment Strategy*.

ORANGE COUNTY'S financial disaster has presented an opportunity for shrewd investors. It has produced near paranoia on municipal bonds, causing unthinking investors to dump perfectly good tax-exempts. Closed-end municipal funds have been among the hardest hit, and many now trade at major discounts to net asset value and pay well-above-average, tax-free yields. Unlike open-ended mutual funds, these closed-ends are not redeemable at net asset value; they can be sold only to another buyer. Thus they are more vulnerable to changes in investor psychology than open-ended municipal bond funds.

Here are several closed-end municipal bond funds, all of which trade on the NYSE, that look interesting now.

Colonial Investment Grade (9½) is a closed-end municipal fund that does not use risky leverage or derivatives. The fund trades at a 5% discount to net asset value and yields 7.3%.

Intercap Insured California Municipal Security (11¾) does not use derivatives and currently has no leverage. It trades at an 11.8% discount to net asset value and yields 6.1%.

Municipal Advantage (10½) is priced at an 11.5% discount to net asset value and provides an 8.5% yield. The fund does not use leverage or derivatives.

Municipal Income Trust II (9¼) is priced at a 6% discount to net asset value and yields 6.9%. The fund has an average duration of seven years and is derivative- and leverage-free.

Kemper's Strategic Municipal (11½) also is derivative- and leverage-free. The fund yields 7.3% and trades at a 1% discount to its net asset value.

If you do own mutual funds or money market funds and are worried about possible exposure to the derivatives that sank the Orange County Fund, here's what to do: Phone or write your fund and ask whether it uses derivatives and leverage. If it uses either in a manner that you cannot have explained satisfactorily, get out. There are enough good funds that can give you similar returns without the added risks.

There is nothing wrong with derivatives per se, but they are not suitable for ordinary investors who simply want to enhance yield. They are often used as a tool by speculators. Unfortunately, many money managers used this speculative instrument in order to create a bit of extra yield and thus attract business to their funds. But that extra yield was not really interest; it was a speculative profit.

Take Piper Jaffray's Institutional Government Income Portfolio Fund, widely considered a safe short-term government fund. The fund had displayed blowout returns since 1989, because of the use of derivatives to capture higher long-term rates when short interest rates were down near record lows. Billions of dollars flowed into the Piper funds, accompanied by multimillion-dollar management fees.

The fund manager made the highly risky bet that rates would stay low by placing a large part of his portfolio into inverse floaters, a derivative that rewards the buyer if interest rates drop and punishes him if they rise. When rates began to shoot up, the fund holders lost over 25% of their capital.

The victims were the unknowing folks—municipalities, churches, retirement funds and the like—who thought they had put their money into a totally safe investment. When the bet blew up, the management and a good part of the unsophisticated press blamed derivatives. The fault was not derivatives. The fault was with managers who spiked their lemonade with a lot of booze.

Orange County was not a victim of derivatives. It was a victim of stupidity and venality. The County's former treasurer purchased inverse floaters not making an investment but rather placing a risky bet on the direction of interest rates. But even this was not enough. The gamble was compounded by leveraging his bet three- or fourfold. So, the Orange County Fund lost 27% of its capital, a lot

**Know your fund.
Phone or write and
ask whether it uses
derivatives and leverage.**

worse than the stock market suffered in any year since the 1930s.

Derivatives had become for some officials a convenient cover for gambling with public funds. But we don't close the racetracks because some people gamble their grocery money nor do we close the saloons because some people drink too much. The trouble is not with derivatives. The trouble is with people who use them irresponsibly.

Meanwhile, however, all the fallout has created some interesting buys in tax-free closed-end muni funds. If you would with any fund, open or closed, pay attention to annual expense ratios. A very high one could erase the benefit of buying a fund at a discount to net asset value.

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A powerful way to reduce illegal immigration is to encourage developing countries to maintain strong currencies and free market economic policies.

Peso refugees

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

IN THE AFTERMATH of Mexico's peso debacle, more Latin Americans will be packing their bags for the trek to the U.S. Since Latin America already accounts for nearly half of the U.S.' new immigrants, any increase in immigration across the Rio Grande will make the scheduled congressional hearings on immigration even more electric.

Professor George J. Borjas has assembled U.S. census data showing that during the 1950s, only 250,000 immigrants entered the U.S. annually, accounting for 9% of the change in the population. Today over 1 million immigrants arrive each year, and they account for over 40% of the country's population growth. If the situation in Mexico deteriorates further, that number will go higher.

Immigrants have unquestionably contributed to economic growth and to our culture, but changing trends in the composition of immigration are going to ignite a lot of anger when aired on TV and in the headlines. Forty-five years ago over two-thirds of the new immigrants originated in Europe and Canada, and they had a bit more schooling than the average U.S. native. By 1990 almost 85% of the new immigrants originated in Asia and Latin America, and they had significantly

less education than natives.

The decline in education suggests that the new mix contains a lot more unskilled workers. About 40% of the newest immigrants are high school dropouts, while only about 15% of the native population fail to finish high school. The declines in relative education and skill levels are reflected in earnings: By 1970 recent arrivals earned 17% less than natives. Now they earn 32% less. The new arrivals are particularly unsuccessful in the U.S. labor market and will remain so throughout their working lives.

The data also show that a significant part of the new pool of immigrants are assimilating not into mainstream America but into the welfare culture. This is made clear by looking at the data about cash benefit

The data show that a significant part of the new immigrants are assimilating not into mainstream America but into the welfare culture.

programs for public assistance: Aid to Families with Dependent Children, Supplemental Security Income and general assistance. (Data about immigrants' participation in noncash welfare programs, such as food stamps and Medicaid, are not available in the censuses.)

In 1970 immigrant households were less likely to receive welfare than native households. But by 1990, 9.1% of newly arrived immigrant households received welfare, compared with only 7.4% of native households. These trends suggest that the overworked melting pot

metaphor is no longer valid.

According to the census data, not only do recent immigrants avail themselves of public assistance with a higher frequency than natives but they are more clever at milking the system. The typical native household receives roughly \$4,000 in cash benefits (in 1989 dollars) while the average immigrant household receives about \$5,400.

You can be certain that these welfare numbers will figure prominently in the forthcoming congressional hearings and add to the pressure for restricting immigration. It has become clear that access to welfare attracts immigration and not necessarily the kind our economy needs. This helps explain why Proposition 187 passed so handily in California despite vociferous opposition.

Thoughtful people should recognize the need to overhaul our welfare system, one that subsidizes and artificially stimulates the flow of new underclass to the U.S. They should also see in these trends certain foreign policy implications. It is very much in our national interest to encourage free market economic reforms in the developing countries: that fewer desperate people will uproot themselves because they cannot prosper or even survive at home.

The U.S. should encourage countries to establish sound monetary use of currency boards and keep up the pressure to liberalize the economies. By doing so, capital will flow more freely to less-developed countries. With a freer flow of both labor and capital, the immigration problem would cease to be one. For now it is a serious problem stimulated by our welfare system and ill-conceived economic policies abroad. It will be aggravated by the fallout from the Mexican peso debacle.

The futures market is predicting yet higher interest rates. But don't look for the rising rates to slow the economy anytime soon.

An efficient crystal ball

CHARLES E. BABIN



Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

PREDICTING INTEREST RATES is a humming business. Fortunately, there's an effective way to assess the interest rate outlook: the futures market.

The treasury bill (91-day) futures commenced trading in January 1976 on the International Monetary Market, a division of the Chicago Mercantile Exchange. Contracts are traded for March, June, September and December delivery dates. The furthest contract is 24 months removed. Quota-

tions are published in the financial dailies, so the figures are readily available to all investors.

Futures contracts do more than memorialize the agreed price for delivery of a credit instrument with 91 days to maturity on a specified date. They can also be harnessed to derive an implicit interest rate forecast born of the collective wisdom of market participants.

While futures market quotations don't always hit the bull's-eye, there's reason to trust in the market's general forecasting ability: In the futures market, opinion is backed up with cash. If you bet wrong, you lose your money, your job or both. This, believe me, is an effective discipline.

As shown in the table, over the past decade these implicit market forecasts were within 50 basis points or so of pinpointing the upcoming year's average bill rate. These projections also correctly signaled which way interest rates were headed every year.

By comparison, the experts (as

tracked by a survey of 50 or so of the nation's top economists) produced an inferior overall performance. But even if the track records were identical, the implicit forecasts would still enjoy a decided advantage over economists: These projections are free.

What are T bill futures saying for 1995? They are saying that the uptrend in rates that began in September 1992 will continue. According to December's closing quotations, the three-month T bill yield will pierce 6% before midyear—up from today's 5.7%—and average better than 6.5%.

Will higher rates trigger an economic slowdown, perhaps even a recession? Probably, but don't expect it anytime soon. While it may seem counterintuitive, empirical evidence indicates that rising interest rates are symptomatic of expanding economies. So if history is a guide, the economic news should remain reasonably encouraging, as long as interest rates move up the path suggested by current futures market pricing.

This is not to argue that there will be no damage to the economy from rising interest rates. There will be. But probably not in 1995. It's a matter of timing. Typically, the negative impact shows up once rates crest. In fact, every peak in the interest rate cycle since 1960 was followed by a recession within 24 months. And the futures market is saying that we have not yet reached the peak. If rates top out during 1995, though, look for the weakness to start showing up in 1996—an election year.

How about the stock market? Since equity markets are forward-looking, it's entirely possible that the sluggish markets of 1994 and early 1995 are discounting the potential for recession. When the actual downturn does occur, the stock market may breathe a sigh of relief and go up. That's what happened in 1982, the worst calendar-year economy in postwar history. On the heels of a 9.7% decline in 1981, the S&P 500 stock index rebounded nearly 15%.

Although the futures market continues to signal higher rates in the months ahead, investors should be prepared to capitalize on any downturn. The financial markets could start looking beyond the next economic downturn to recovery.

Look to the futures

Year	Actual three-month T bill yield ¹	Forecast comparisons			
		Market ²	Error	Experts ³	Error
1994	4.3%	3.4%	0.9%	3.4%	0.9%
1993	3.0	3.4	0.4	3.5	0.5
1992	3.4	3.8	0.4	4.2	0.8
1991	5.4	6.1	0.7	6.3	0.9
1990	7.5	7.0	0.5	7.1	0.4
1989	8.1	8.1	0.0	7.8	0.3
1988	6.7	6.2	0.5	6.0	0.7
1987	5.8	5.4	0.4	5.4	0.4
1986	6.0	6.9	0.9	7.1	1.1
1985	7.5	8.6	1.1	8.6	1.1
Average error:			0.58		0.71

¹Calendar-year average. ²Derived from previous year's closing futures market quotations. ³Blue Chip Economic Indicators consensus estimate.

Worried about short-term rates? T bill futures quotations have proven to be a reliable barometer of interest rate fluctuations. Today's outlook? Expect T bill yields to pierce 6% by midyear.

While posted college costs keep rising faster than inflation, more schools are discounting the posted price.

Cutting deals

BY A. GARY SHILLING



A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

BILL GATES never finished college. Neither did a lot of other successful young entrepreneurs. A new U.S. Trust Corp. survey of highly successful entrepreneurs reveals that only 46% got college sheepskins. All of these are among the wealthiest 1% of Americans, but about 29% never went to college and 27% didn't finish.

Americans have long viewed education as a passport to a better life, and today some schools tout their product as the route to a better paycheck. That sales pitch is wearing a bit thin in the face of observed reality. The reality is that the demand for college graduates is dwindling even as evidence mounts that many successful entrepreneurs are often diplomaless.

My firm saw this coming five years ago and reported that future college graduates would have much more trouble finding jobs than did their immediate predecessors. Two factors underlay our forecast. Slower economic growth in the 1990s seemed likely, as Americans switched from borrowing and spending to saving and debt repayment, as the 1980s' overbuilding of real estate curtailed new activity, and as the cold war's end precipitated defense spending cuts. This would curtail all employment.

The second factor strikes more di-

rectly at the demand for college graduates. So long as productivity growth in services remained low, as it did in the 1970s and 1980s, the demand for those with higher education remained robust. But now that the pressures are on for improved productivity in businesses like banking and insurance and retailing, companies are working hard at doing the same work with fewer people. Anticipating this, we predicted a chronic surplus of graduates at the end of the decade.

The Bureau of Labor Statistics now agrees. It says that of the 18 million college graduates expected to join the labor force in the 1992-2005 period, only 14 million will get jobs that require college training. The others will end up in positions for which they are overqualified. The taxi-driving Ph.D. is here to stay.

Gone are the days when big companies eagerly combed the campuses. Downsizing Kodak visits 26 schools, compared with 100 a decade ago. AT&T hires half as many graduates as it did in 1990. When these firms do hire, they want engineers, not liberal

Those who are smart enough to get into college are smart enough to understand the value of a college education.

arts graduates.

Does this mean that young Americans will stop going to college? No. For those without a college degree, job-hunting will be even tougher. What it does mean, we think, is that people will no longer be willing to pay any price to get that sheepskin. Except at the most prestigious schools, the college degree is becoming a commodity. Already noticeable is a trend toward the cheaper state-supported schools and away from the second- and third-ranking private schools.

Prestigious colleges can still raise

tuition at will, but the rest have hit brick wall. Many private schools are discounting their services. On record, average tuition at four-year colleges rose 6% last year, twice CPI increase. Yet some institutions are so aggressively offering scholarships to attract qualified students that they keep as little as 10% tuition increases. Even as they raise their posted prices, they offer more and more discounts.

Many colleges have dropped "neither blind" admissions policies and now give some preference to students whose families can pay at least part of the tab. Others are downsizing, restricting tenure offers to professors and otherwise cutting costs.

Don't buy the popular argument that the squeeze on colleges results from a temporary decline in college enrollment caused by earlier low birth rates. While high schools are now graduating 2.5 million students per year, down from 3.1 million a decade ago, the proportion going to college has risen from 53% to 63% and will remain high. Unless you are an entrepreneur, you still need a college degree to get a job. But the degree doesn't guarantee you will get one. It's a ticket of admission to the job market but does not guarantee you a seat.

Many in the academic world think that the pressure on their prices will evaporate and the good old days will return in several years, when demographics push up the pool of new high

school grads. I disagree. Americans who are smart enough to get into college are smart enough to understand the economic value of a college education. If I am right, the pressure to discount tuitions will continue, even with the revival of enrollments.

Welcome, at last, to the real world for all you academics. For a decade now the business world has struggled to reduce costs and produce a better product at a lower price. The non-Princetons and non-Stanfords among our private colleges will have to do the same. Or perish.

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Plug in

LAST YEAR was the worst of times for cable stocks, which were down an average 30%. This year could be a lot different, according to Merrill Lynch analyst Jessica Reif. The stocks, she says, "have absolutely hit bottom."

She points to new FCC regulations issued in November. As of Jan. 1, cable operators can charge an additional 20 cents per channel, to a maximum of six channels, assuming they have the capacity to do so. With the average monthly cable bill \$33 and operating cash flow margins 45%, that could make for up to \$15 of operating cash flow per subscriber each month. An additional \$1.20 would increase cash flow by 8% per annum. Reif also thinks it's likely the Republican Congress will ease some of the regulation that straitjackets the industry.

She also notes that cable stocks have been depressed by fears about the high cost of getting into the telephone business, but those fears may be overblown. "My suspicion is that at the end of the day the bidding [in the Personal Communication Services auctions] will be reasonable because consortiums have been formed. There are very few multiple bidders." Once the auctions are over she expects this concern to subside and the stocks to go up.

Reif doesn't favor smaller operators who she thinks lack economies of scale. Best bets: TCI (recent price, 21¾), Time Warner (34) and Comcast (14½). "I think cable prices will more than recover," she says. "I expect them to exceed their old highs."

—LISA GUBERNICK

Will they thrive in '95?

TO GET SOME IDEAS for readers who may be looking for stocks to buy early in the year, Streetwalker revisited several of the sources whose recent tips have been especially fruitful.

When food retailing analyst Gary M. Giblen, who recently jumped from PaineWebber to Smith Barney, first recommended Safeway here (Mar. 15, 1993), the stock was at 11%. A year later, after the stock had more than doubled, Giblen said Safeway's run wasn't over (Mar. 14, 1994). The stock's since up 30%; recent NYSE price, 30¾.



American Stores supermarket and drugstore
Son of Safeway?

Giblen still likes Safeway. He estimates it will earn \$2.35 a share in 1995 and \$2.80 in 1996. He looks for the stock to reach the low 40s over the next 12 months, around 33% above current levels.

But Safeway isn't Giblen's favorite stock for 1995. It's American Stores Co. (recent NYSE price, 26½), which he calls "son of Safeway."

Salt Lake City-based American Stores, notes Giblen, has a leading share of the supermarket business in Chicago, where its stores are named Jewel, Philadelphia (Acme) and California (Lucky). "It's a lumbering giant like Safeway once was," he says. Following in Safeway's footsteps, in 1994 the company started cutting costs and reinvesting in store remodeling. Same-store sales recently began to improve.

Another plus, says Giblen: After several rough years the drugstore industry's fundamentals are on the mend. This should help American Stores' big Osco drugstore chain (named Sav-on in southern California), which accounts for about 33% of operating income.

Giblen estimates American Stores will earn \$2.07 a share, up 15%, in the fiscal year ending this Jan. 31. He projects \$2.35 and \$2.75 for the next two years. His target price for the stock over the next 12 months is the mid- to high 30s.

Another Streetwalker star is Jeffrey Kanne, a health care specialist at Chicago's Kanne, Paris & Hoban. In the May 24, 1993 issue, Kanne recommended Cordis and St. Jude Medical. Nine months later Cordis had more than doubled; St. Jude was off 12%.

Stick with both, said Kanne (Feb. 2, 1994). Since then they're up 25% and 30%, respectively.

Kanne's top pick for 1995 Chiron, the Emeryville, Calif.-based biotech outfit. Recent o-t-c price: 6.

Ciba-Geigy just completed a tender offer for 11.9 million Chiron shares at \$117 per share, bringing the Swiss drug giant up to half of Chiron roughly 40 million shares.

Chiron, says Kanne, will benefit from a marketing, manufacturing and distribution link with Ciba. Ciba has agreed to invest up to \$300 million in Chiron's drug R&D. Plus Ciba will guarantee \$425 million in new debt for Chiron.

Kanne estimates that Chiron earned \$1.03 a share in 1994; he predicts \$1.95 this year. Though the stock's not cheap, at 32 times his 1995 projection, Kanne is looking ahead. After 1995 he expects Chiron's earnings to compound at close to 40% per annum. Says Kanne: "There aren't many places you'll find growth like that."

Health care analyst Jonathan Osgood of Alex. Brown & Sons recommended Stryker, a maker of orthopedic surgical products (July 18, 1994). The stock's up more than 40% in just six months.

What does Osgood like best this year? Abbott Laboratories; recent NYSE price: 31¾. "In an iffy market," he says, "go with something that's tried and true."

Osgood expects Abbott's earnings to grow 12% both this year and next and to accelerate after that on the strength of new drugs and diagnostic products. His 1995-96 estimates are \$2.10 and \$2.35, respectively.

Of particular note: AxSym, an immunodiagnostic analysis instrument introduced worldwide last year. Osgood says that AxSym sales could hit \$500 million in three to five years. Thanks to GATT, under which European and U.S. patent laws are being made more consistent, the patent on Hytrin, an Abbott drug for hypertension and prostate disease, has been extended for an extra 16 months until January 1997.

Osgood sees Abbott as high as 40 over the next year, roughly a 25% gain from recent levels. He also likes the stock's 2.4% dividend yield.

Stainless shines

THE STOCK of Pittsburgh-based Allegheny Ludlum Corp. has been on a roller coaster. The nation's leading producer of stainless steel began 1994 around 25, fell to 17, recovered to 22 in September, then slumped again, to around 19. There it is a buy, according to Donaldson, Lufkin & Jenrette analyst John Tumazos.

Last year's ten-week strike dropped 94 earnings to 26 cents a share, from \$1.06 in 1993. But business was strong in the fourth quarter, and a recently instituted 5% price increase seems to be sticking.

Allegheny Ludlum projects 4% to long-term growth for worldwide consumption of stainless steel products. According to Tumazos, the automotive industry over the next decade will consume more stainless steel per unit, primarily for exhaust systems. In China the company is pursuing a venture to give it greater access to that market. Allegheny is selling products for growth sectors: Hewlett-Packard ink-jet printer cartridges, window channels and catalytic converters.

Tumazos expects that Allegheny's earnings will rebound to as much as \$1.45 a share this year. If he's right, the shares are selling for just 13.5 times his 1995 estimate. Tumazos predicts that Allegheny Ludlum's stock will recover to 25 over the next months, nearly 30% above its current levels.

Kuwaiti losers

SEC filings show that the Kuwait Investment Authority has sizable interests in two Big Board-listed closed-end country funds: a nearly 13% stake in the Turkish Investment Fund and almost 8% stake in the ROC Taiwan Fund. Recent prices: 6 and 11%, respectively.

Both had a lousy 1994: Turkish lost 10% of its market value. Taiwan lost about 10%. Inexplicably, the Turkish fund now trades at a 32% premium to its asset value. Taiwan is at a 10% discount. Neither looks like a big bargain in a market where other quality country closed-ends like the India Fund and Thai Fund trade at discounts of 20% or more.

—RICHARD PHALON

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3 years ago in FORBES

(FROM THE ISSUE OF FEB. 1, 1925)



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capital can no longer hire the finest managers without offering them, in addition to a substantial salary, a share in the profits earned. [Andrew] Carnegie was among the first, if not the first, to introduce this system of rewarding leading executives according to the financial results they achieved each year."

Construction will be started soon on the second-largest hydroelectric generating plant in America to supply power for the contemplated electrification of the Pennsylvania Railroad system between Manhattan Transfer and Washington, D.C."

1 years ago

(FROM THE ISSUE OF FEB. 1, 1935)

Just a few weeks ago we learned that 'zippers'—slide fasteners—may now be made in a new way. Namely, die casting. . . . Meanwhile, it appears, something even more snappy



Chicago & North Western's "400" in 1935: 400 miles to St. Paul in 400 minutes.

has been happening in the zipper field. Colored zippers are now on the market."

"Re-employment in the service industries, chief of which are transportation, communications, and wholesale and retail trade, must await the purchasing power that can come only as the millions unemployed in the durable-goods industries are put back to work. Unemployment is centered, and recovery must be achieved, on this front."

50 years ago

(FROM THE ISSUE OF FEB. 1, 1945)

"Three years after the shooting stops there will be 300,000 civilians leaving the highways for the skyways—in their own planes. That's the prediction of Civil Aeronautics Administrator Charles I. Stanton, and it closely approximates a special survey of buying intentions in nine large cities. . . ."

"Rooftop ice formations, often leading to the menace of falling icicles, can now be prevented. The trick is done by means of flexible heating cable, installed on the roof, gutters and through the downspout."

25 years ago

(FROM THE ISSUE OF FEB. 1, 1970)

"Pollution is just becoming a national political issue, but it is far beyond that stage in smog-weary California. Governor Ronald Reagan, up for reelection this year, announced last month an immediate conversion of 175 state-owned vehicles to natural gas."

"The Nixon Administration is making little headway in dealing with the persistent lag in U.S. exports. In fact,

there is little it can do. Until recently, the U.S. enjoyed a fat export surplus of some \$4 billion to \$5 billion annually. No longer. A cushion of only about \$1 billion was all there was last year and all that is likely in the immediate future."

"'Diamonds,' says Lorelei Lee in Anita Loos' novel, *Gentlemen Prefer Blondes*, 'are a girl's best friend.' Maybe yes and maybe no. They certainly are loyal friends. They'll still be worth money when furs and Cadillacs wear out. Unlike, say, stock certificates, it is safe to 'put diamonds away and forget about them.'"



Unlike stocks or bonds, said Forbes in 1970, diamonds are a girl's most loyal and dependable form of wealth.

10 years ago

(FROM THE ISSUE OF JAN. 28, 1985)

"European cars led the hit parade for rip-offs last year, according to the Insurance Institute for Highway Safety. . . . Leader was the 1984 Volkswagen Rabbit convertible, with a theft rate 15 times the average. . . . The rest of the top eight included three other VWs, two Saab models, one Mercedes and one BMW." Toyota's Cressida ranked ninth. Tenth was the lone U.S. entry, the four-door Cadillac Brougham."

"Sensormatic Electronics, which sells antishoplifting devices, went from \$24 a share last year to a recent \$7. Merry-Go-Round, which sells clothing favored by free-spending teenyboppers . . . traded at 22 a year ago. It recently sold at 12. . . . The sorry performance of many 'small growth stocks' FORBES has tracked is sorrier still compared with any of the broad market averages over the past five years."

Lord Northcliffe [British press magnate] once told me that he had discovered in America a tendency to install and worship "system" to such an extent that so much time was spent on "system" that little time was left for rounding up business to keep the "system" going. Is it not so with "conferences"? Isn't the legitimate purpose of conferences being lost sight of? Just how far should businessmen go in spending hours in conferences with their colleagues and shut out, meanwhile, all communication with those from whom they derive their business? Executives cannot make a business pay by taking in one another's washing.

—B.C. FORBES

Men who are occupied in the restoration of health to other men, by the joint exertion of skill and humanity, are above all the great of the earth. They even partake of divinity, since to preserve and renew is almost as noble as to create.

—VOLTAIRE

A good laugh and a long sleep are the best cures in the doctor's book.

—IRISH PROVERB

All interest in disease and death is only another expression of interest in life.

—THOMAS MANN

I am dying with the help of too many physicians.

—ALEXANDER THE GREAT

A Text. . .

Come now, and let us reason together, saith the Lord: though your sins be as scarlet, they shall be as white as snow; though they be red like crimson, they shall be as wool.

—ISAIAH 1:18

Sent in by Clarissa W. Deady, Oswego, N.Y.

What's your favorite text?

The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

The desire to take medicine is perhaps the greatest feature that distinguishes men from animals.

—SIR WILLIAM OSLER

By medicine life may be prolonged, yet death will seize the doctor too.

—SHAKESPEARE

You medical people will have more lives to answer for in the other world than even we generals.

—NAPOLEON

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The dignity of a physician requires that he should look healthy, and as plump as nature intended him to be; for the common crowd consider those who are not of this excellent bodily condition to be unable to take care of themselves.

—HIPPOCRATES

There is no better surgeon than one with many scars.

—SPANISH PROVERB

Medicine being a compendium of the successive and contradictory mistakes of medical practitioners, when we summon the wisest of them to our aid, the chances are that we may be relying on a scientific truth the error of which will be recognized in a few years' time.

—MARCEL PROUST

Medicine is the only profession that labors incessantly to destroy the reason for its existence.

—JAMES BRYCE

The whole imposing edifice of modern medicine is like the celebrated Tower of Pisa—slightly off balance.

—CHARLES, PRINCE OF WALES

We have to ask ourselves whether medicine is to remain a humanitarian and respected profession or a new but depersonalized science in the service of prolonging life rather than diminishing suffering.

—ELIZABETH KUBLER-ROSS

As long as men are liable to die and are desirous to live, a physician will be made fun of, but he will be well paid.

—LA BRUYERE

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The NEA is still fat. It isn't necessarily happy with the public's mood about education.

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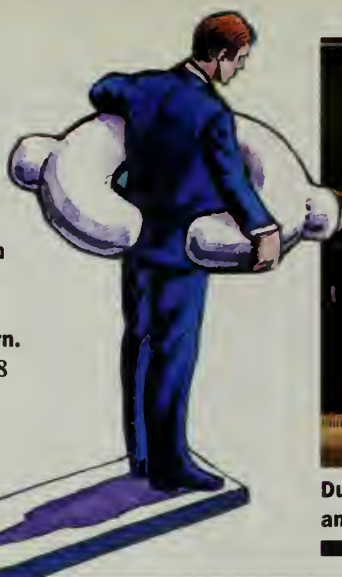
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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 100
Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029.
GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes.
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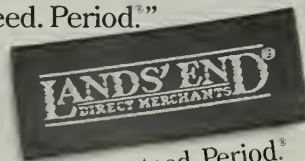
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The NEA is edgy

A PUBLIC SCHOOL TEACHER IN A SMALL TOWN in upstate New York sent us a union newspaper, whose front page is reproduced here. She was boiling. The local teachers union—to which she must by law belong—had tried to pressure her into ringing doorbells on behalf of presidential candidate Bill Clinton. This was the last straw. Now the union was using its tax-exempt resources to campaign for the reelection of Democrat Mario Cuomo as governor.

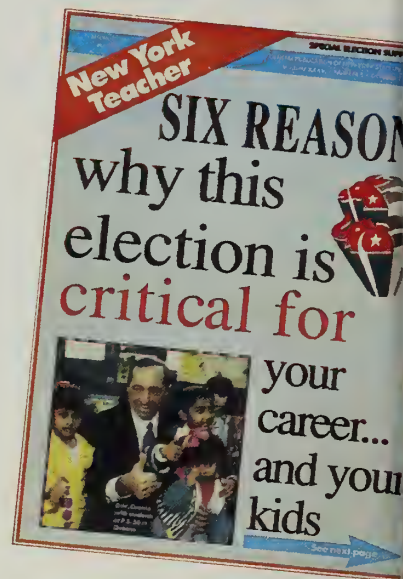
This symbiosis between teachers unions and the Democratic Party has a long history. In 1961 President John Kennedy issued an executive order permitting unions to bargain collectively on behalf of federal employees. Most states followed, bringing schoolteachers into the picture. There was no debate. Kennedy was just redeeming an IOU.

Little did JFK realize—little did anyone realize at the time, such are the unforeseeable consequences of political actions—that he was loosing forces that would contribute importantly to the decline of public education in the U.S. Thenceforth the National Education Association was to transform itself from a rather benign organization into a legalized monopoly that is everywhere forcing up property taxes and indoctrinating American children with some very nonmainstream views.

The good news is the NEA may be about to be humbled. “Comeuppance” Peter Brimelow and Leslie Spencer explain. The list steps Congress could take to tame this monster.

With the spotlight finally thrust on it, the NEA has gotten jump. William Heuslein, who helped report “Comeuppance,” recounts: “I contacted the NEA about obtaining a photocopy of a document filed with the Internal Revenue Service. Very basic financial information, stuff that by law tax-exempt organizations must make available for inspection. Most organizations gladly send out a photocopy. The NEA refused. So I shuttled to Washington where the NEA’s communications director took me to a windowless room. For well over two hours I read through the Form 990 and took handwritten notes while an NEA staffer sat watching me.”

Pretty childish. The NEA’s like a kid used to having his own way who throws a tantrum when someone criticizes him. See page 12.



James W. Michaels
Editor

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Still blooming

WHEN LAST we left Michael Bloomberg, the former Salomon Brothers trader was fast becoming a major irritant to bigger rivals like Dow Jones and Reuters. Bloomberg's firm provides masses of user-friendly financial data and news to securities traders and other customers (Nov. 25, 1991).

Brash and entrepreneurial, Bloomberg, 52, has since diversified to become a certified multimedia mogul. Revenues have more than doubled since 1991, to an estimated \$520 million last year. More significantly, his solidly profitable 55-bureau, 2,000-employee conglomerate now spans the globe in virtually every type of media.

Bloomberg Business News is syndicated to 35 radio and 188 TV stations nationwide and hosts the *Charlie Rose* show. *Bloomberg Personal*, a monthly financial magazine supplement inserted in 15 metro dailies across the country, reaches 5.3 million homes. Meanwhile, the core business of leasing terminals has more than tripled, to 45,000 screens. They now include features such as video presentations by analysts and home shopping.

Strategic expansion—or ego-driven, undisciplined overexpansion? We're betting it's the former. Bloomberg's plan is on course to enter as many markets with as many products as possible while controlling content and distribution. What's more, he can afford a few missteps, since his terminals throw off



Multimedia mogul Michael Bloomberg
Entering as many markets as possible

enough cash to underwrite new ventures and cover interest payments.

So is it time for Bloomberg to relinquish control? Not yet. "Am I going to guarantee we'll never do a IPO? No," says Bloomberg, whose nearly 70% stake looks to be worth roughly \$1.3 billion, based on Reuters' revenue and earnings multiples. "If I had to guess what will happen will do a private equity deal in the next year or so, but not a public deal."

Merrill Lynch, whose 1984 investment of \$30 million for 30% of the company now looks worth close to \$600 million, isn't chafing, either. Says Merrill Executive Vice President and Bloomberg board member Edward Goldberg: "If Mike can continue to increase [the company's] value, we are very happy."

—STEPHEN S. JOHNSON

Alien force hurts tabloids

WARILY EYEING last spring's \$17.50-per-share buyout bid from management and venture partners, other Enquirer/Star Group share-

Hot sellers

Alas, O.J.'s saga won't last forever.



holders responded with lawsuits and shrill, tabloid cries of "LOW-BALL!" FORBES said investors would do well to accept the bid or be prepared to stick around for the long haul (July 4, 1994).

A long haul it has been. Instead of forcing a higher bid as they'd hoped, shareholders have watched in dismay as the stock skidded to 7¼, after taxable \$7 special dividend.

Things would be worse without O.J. Simpson, whose plight the tab have milked with shameless hype. Sample: "Nicole & Her Lovers: The men who sent O.J. into a rage." *Star* and *Enquirer* sales are up 15%.

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0%, says PaineWebber analyst Alan Gottesman. He rates the Enquirer/tar Group (recently renamed American Media, Inc.) "attractive."

But so far investors aren't convinced that the tabs' long-term story as changed from one of weakening circulation and no happy ending in sight. —RICHARD PHALON

Too many cooks?

WE'RE SPENDING whatever it takes to make 'em look nice." That's how Piccadilly Cafeterias' chief executive, James Bennett, described his plans to refurbish the Baton Rouge-based chain's 137 restaurants last year (Mar. 28, 1994). At the time we figured Bennett was just the guy to turn around the faltering firm. After all, the Louisiana native had the guts to quit in 1986 as Piccadilly's chief financial officer and cash out at \$22 per share—just before a cost-cutting plan began driving away customers and pummeling the stock.

We spoke too soon. Less than two years after rejoining Piccadilly to refocus the \$276 million (fiscal 1994 sales) firm, Bennett departed gain last September—apparently forced out by a board that didn't have the stomach to complete his five-year, \$65 million makeover plan. Five months later Piccadilly is still without a chief executive.

The turmoil hasn't been lost on Wall Street. Piccadilly's stock is down 4% from the time of our story to a recent 7%. The good news: It's now trading around book value, where even company directors are beginning to nibble. —PHILIPPE MAO

James Bennett
His spending plans
left a bad taste.

Jackson Hill/Spectrum Lights

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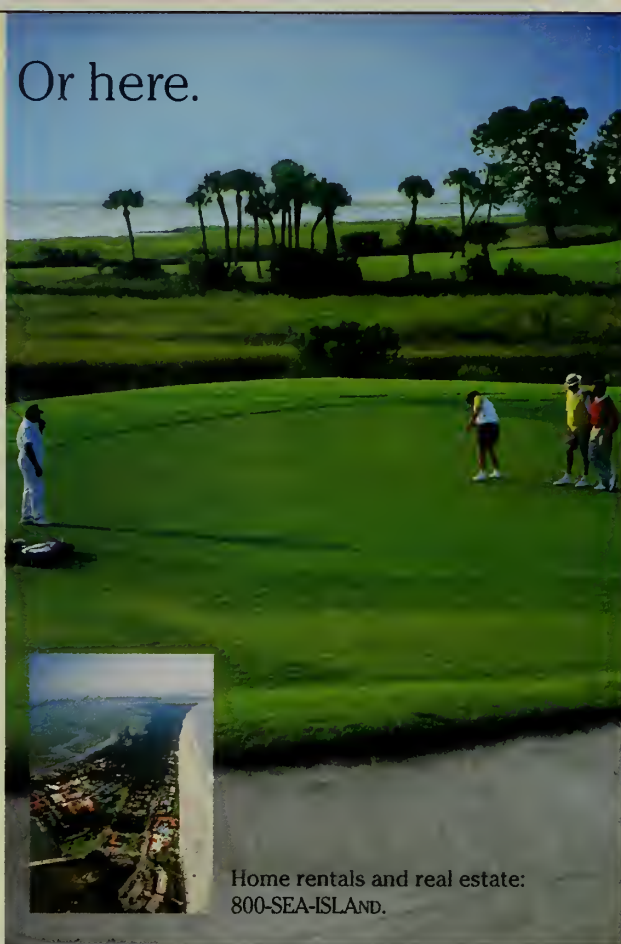
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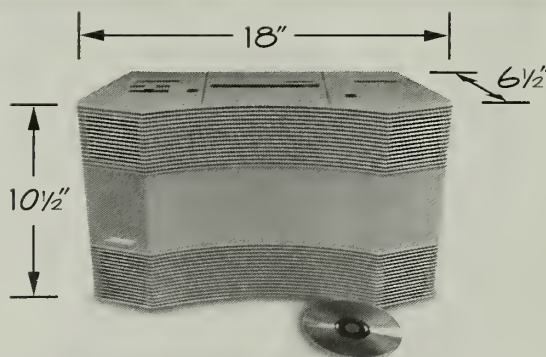
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Unfriendly skies, less crowded slopes

Aspen's Pitkin County Airport
Problems for the ski mecca since Continental's pullout.



THE ECONOMY ended the year on a strong note. Not so the lodging business in Aspen, Colo. Lodging occupancy rates for December in the trendy ski town were down about 5% from December 1993 levels.

One villain: Continental Airlines' cancelation of service to Aspen last fall. The Continental pullout left United Airlines' commuter arm, United Express, with a monopoly. United quickly cashed in by raising the price of round-trip tickets from Denver to Aspen by 10% and from places like New York and Miami by even more. United also convinced the Aspen Ski Co. and the Aspen and Snowmass resort associations to give it \$100,000, for which United Express increased its number of daily Denver-to-Aspen flights during skiing season from 10 to 15.

Even so, United Express wasn't able to make up entirely for the 222 plane loads of skiers that Continental flew to Aspen in December 1993. Worse, there's been a lot of double-booking by skiers afraid that with fewer flights they won't get a seat. Result: Many supposedly sold-out United Express flights from Denver to Aspen are in fact only 70% full.

Aspen Ski Co. and the resort associations are now trying to lure other air carriers. To ease the pressure on weekend flights into Aspen (booked months in advance), the boosters are also creating special midweek travel packages, with discount lodging, airline and ski tickets. And Eagle, Colo., serviced by American, Northwest, Delta and United, and an hour and a half away by car, is now being promoted as a gateway to Aspen. —TODDI GUTNER BLOCK

Lester the Liquidator

SPEAKING OF Aspen, billionaire Lester Crown, who owns the Aspen Ski Co., is embroiled in a nasty lawsuit over the liquidation of his late father-in-law Myer Schine's real estate business, Schine Enterprises, which once owned hotel properties like Los Angeles' Ambassador Hotel.

Way back in 1966, Crown began liquidating Schine Enterprises for the benefit of its shareholders, including Myer Schine's grandchildren.

Myer Schine died in 1971. In 1989 nine of his grandchildren—excluding Lester Crown's kids—sued Crown for \$20 million. They claimed this money (including about \$4 million in interest) was their share of the liquidation proceeds but was pocketed by Crown.

Last October a jury found for the grandkids (most of whom are in their 30s and 40s) and awarded them the \$20 million. But the judge in the case recently ordered a new trial. His reasoning: While the jury delivered a split decision on Crown's actual liability, it assessed him the full amount of damages anyway. —T.G.B.

Why Wirtz hurt

BIG SIGH of relief from Forbes Four Hundred member William Wirtz, owner of the Chicago Blackhawks hockey team, now that the National Hockey League lockout is over and the season under way. A joint venture between Wirtz and the owners of basketball's Chicago Bulls split the \$175 million cost of their teams' new arena, the 20,500-seat United Center. The basketball season be-

gan on schedule, but the NHL lockout iced 17 Blackhawks home games, wiping out an estimated \$12 million in general admission ticket sales—plus at least another \$6 million in concession sales. —R. LEE SULLIVAN

Ice wars

WHAT DID fans of Bill Wirtz's Blackhawks and the Detroit Red Wings (owned by fellow Forbes Four Hundred member Michael Ilitch) do during the NHL's lockout? Many watched the Chicago Wolves and Detroit Vipers of the International Hockey League, a notch below the NHL. Playing for only a year, the Wolves and Vipers have drawn average attendance of 11,500 and 14,600 per game, respectively—impressive for minor-league hockey.

The upstart IHL has big-league ambitions. Eight new clubs have joined the 17-team league since 1990, in big markets like Atlanta, Denver and Houston. Four of this season's five new IHL teams are averaging more than 11,000 fans per game. Next season the league will have new franchises in no fewer than five NHL teams' markets: clubs will debut in San Francisco and Orlando, and the IHL's San Diego team will be moved to Los Angeles.

"The only thing minor league about the IHL is our ticket prices [an average \$10 per seat, versus \$30 for the NHL]," says IHL Commissioner Robert Ufer, a former hockey star and



A Detroit Viper (left) of the IHL
Big-league ambitions.

Yale. And salaries: an average of \$60,000 for the IHL players, versus \$575,000 a year in the NHL. —R.L.S.

Good water, goodwill

RICHARD HECKMAN's U.S. Filter Corp., based in Palm Desert, Calif., is a \$147 million (sales) maker of water treatment equipment. Last year it became the first U.S. firm to build and operate a wastewater treatment plant in Mexico. The \$20 million facility, funded by U.S. Filter, is situated in Cuernavaca, 90 minutes from Mexico City. As part of the agreement to build the plant, U.S. Filter secured the right to manage it for 12 years, for a fee.

When the peso was devalued in late December, Heckman was prepared. A clause in the contract allowed U.S. Filter to renegotiate the deal in such an event. So Heckman extended the contract from 12 years to 16 years and postponed an expansion that would have increased U.S. Filter's operating costs.

"We could have asked for more in terms of price increases, but I told them all I want to do is stay even," says Heckman, eyeing the market for such facilities in Mexico, which he estimates at \$1 billion. Heckman wants to be invited back and believes future contracts will be more lucrative. "They will need foreign capital now more than ever."

—CHRISTOPHER PALMERI

Breaking and entering

FORBES FOUR HUNDRED member William Davidson got rich by breaking the U.S. glass oligopoly in the 1970s. His privately owned Guardian Industries is now the world's fifth-biggest glassmaker and will be a big winner from the recent U.S.-Japan trade pact, which opened Japan's glass market. Davidson has taken the lead in cracking that glass oligopoly by building a plant in Thailand; some output goes to Japan.

Asahi Glass, with about half the Japanese market, is bracing itself. According to Japanese press reports, Asahi will reduce the number of sizes of glass offered, to cut costs and become more competitive with Davidson's Guardian. —MARCIA BERSS ■

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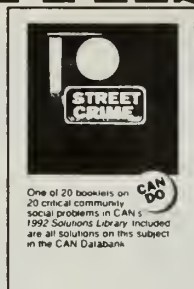
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BY RALPH LAUREN

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Bargain hunter

SIR: Re John Templeton and "The principle of maximum pessimism" (Jan. 16, 1995). N.M. Rothschild said it too in the early 1800s: "Buy when the cannons are thundering; sell when the violins are playing." Boom—Boom—Boom!

—HALEY GARRISON
Curator of Scripophily
Williamsburg, Va.

SIR: Thought you might be interested in what a \$10,000 FORBES "cover to cover" investment would now be worth. On Nov. 17, 1978 I invested \$10,000 in Templeton Growth Fund, which bought 606 shares and (as of 12/31/94) I own 5,600 shares worth \$90,888. No additional contributions were made to this fund. Many thanks to Mr. Templeton for his foresight and wisdom.

—GARY RADDER
Alamo, Calif.

No flapping in the wind

SIR: Re "Tie yourself to the mast" (Dec. 19, 1994). Mutual fund investors who are "tied to the mast" with load funds end up winners indeed, but not out of reluctance to incur the charges for trading funds. Load funds are sold through financial advisers who earn those charges by keeping the knots tight. In moments of panic or exhilaration, a good adviser reasons with clients whose emotions have temporarily overcome their judgment.

—DAVID L. GELLER
Atlanta, Ga.

Legal ease

SIR: Re Fact & Comment (Jan. 2). The reason the loser-pays rule inhibits lawsuits of little or no merit in England is because solicitors and barristers are not permitted to contract for contingency fees. To obtain the same result in the U.S., it would be necessary to either combine the loser-pays rule with abolition of contingency fees or recognize the plaintiff attorney as a financial partner in the lawsuit, at least to the extent of his contingency percentage: i.e., a losing plaintiff attorney with a 40% contingency contract would be personally liable to a



Sir John Templeton
An early contrarian.

winning defendant for 40% of the defendant's expenses.

—W. BEN BLACKETT, J.D.
Tacoma, Wash.

"Hey, what about us?"

SIR: Re "Improvement on copper bracelets" (Nov. 7, 1994). Concerning the statement "... chiropractors a group not known for its attention to scientific discipline": The chiropractic profession should be commended for the tremendous amount of scientific research accomplished when the majority of the research has been funded by the profession itself. During the period of 1975-90, the U.S. federal government made two awards for chiropractic research for a grand total of \$50,800, which is 5-ten thousandths of 1% of the funds which medical schools receive each year.

—ALAN R. WALLIS, D.C.
La Place Chiropratique de Sherbrooke
Sherbrooke, Quebec

ABCs of LLCs

SIR: The Internal Revenue Service does not automatically tax all limited liability companies as partnerships ("S, C, or me?" Dec. 5, 1994). A business entity may be treated by the IRS as an association taxable as a corporation if it has more than two of the following corporate characteristics: limited liability, free transferability of interests, centralized management,

and continuity of existence. Since an LLC by definition has limited liability, the members of the LLC must avoid at least two of the other corporate characteristics; otherwise, the LLC may be treated by the IRS as a corporation for federal income tax purposes.

STEVEN P. GREGORY
Birmingham, Ala.

Dops

IR: Re "Yield of dreams" (Nov. 7, 1994). In the Funds section, FORBES says the California Muni Fund's total return was a negative 7% for 1986. The total return on the fund in 1986 was a positive 9.81%.

LANCE BROFMAN
Fundamental Family of Funds
New York, N.Y.

FORBES regrets the error.—ED.

Competitive edge

IR: Stating that semester tuition cost of \$3,000 at DeVry is half the cost at some state universities is misleading. "Competition? Heaven forbid," (Jan. 2). Comparing only tuition and mandatory fees, most students can attend a community college or local state university for a fraction of DeVry's \$3,000 tuition. Tuition and fees per semester at the University of Houston-Downtown, which offers an engineering technology program in direct competition with DeVry, total \$1,568.

WADE M. JOHNSON
Department of Engineering
Technology
University of Houston-Downtown
Houston, Tex.

Investment guru

IR: Re "Compounded interest are our favorite words" (Dec. 19, 1994). Andre Agassi is not "weaning" from IMG. On the contrary, the relationship was re-formed in May 1993, and has been strengthened. Investment Advisors International, a subsidiary of IMG, is involved more now with Andre's financial affairs than ever before.

PERRY C. ROGERS
Chief Operations Officer
Agassi Enterprises
Las Vegas, Nev.

Forbes ■ February 13, 1995

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Fact and Comment

by Malcolm S. Forbes Jr., *Editor-in-Chief*



SHE DOES IT AGAIN!

NEW JERSEY GOVERNOR Christie Whitman has astonished friend and foe alike with her radical new tax-cutting budget. Skeptics were gleefully predicting that Governor Whitman would have to break her pledge to reduce the Garden State's income tax rates 30% over three years. Instead, she's doing it in two years. Critics claimed she would flinch from making the necessary budget cuts. She has proven them wrong.

This kind of foresighted fortitude led the GOP to choose her to respond to President Clinton's State of the Union address.

Her budget sets a wonderful example for other states. Now the new, tax-cutting chief executives of New York (George Pataki) and Connecticut (John Rowland) can say to naysayers, "See, it's doable." Moreover, they can argue that they must slash expenses if their states are to remain competitive economically. Other governors will soon be receiving heat from voters asking, "Why not us?"

Although in effect only one year, Governor Whitman's tax program is beginning to heal New Jersey's sick economy. From 1950 to 1990 the state was one of the nation's economic leaders. After draconian tax increases were enacted in 1990, it became an overnight laggard. For the

first time in years, New Jersey was doing worse than neighboring New York and Pennsylvania. Now, Governor Whitman proudly notes, the Garden State is performing better than New York, Pennsylvania and Connecticut. If the legislature goes along with her budget, the state should resume its premier place in the nation by the next gubernatorial election, in 1997.

Governor Whitman also deserves hosannas for the careful way she is reducing the scope of state government. Instead of across-the-board cuts, she is pruning or eliminating programs that clearly are outmoded or inefficient. Democrats claim her cuts will mean higher property taxes even though state aid to municipalities will remain stable. As a *New York Times* editorial rightly noted, "There is no clear proof of a link." The governor has also taken pains to help localities become efficient, by offering

in-depth fiscal reviews that will turn up useful menus of budget savings for mayors and municipal councils.

Education unions and other progovernment groups are fighting this budget quietly but ferociously. It'll be interesting to see if the Republican legislature can, in this election year, rise above the pressure of special interest opposition.



Christie Whitman: Still on cutting edge of cutting taxes.

ARGENTINA IS PROVIDING

A wonderfully inspiring contrast to Mexico's self-destructive behavior. The hero is Minister of the Economy Domingo Cavallo, who, several years ago, spearheaded President Carlos Menem's drive to turn Argentina from a chronic economic basket case into a regional powerhouse. Yearly inflation has gone from over 2,000% to under 4%. Argentina's peso is stable. Internal, competition-stifling cartels are being disbanded. The country has been growing at an impressive 7% average since 1991. Cavallo recognizes what the Mexicans and most American officials do not: A currency is a fundamental "contract" between a government and its citizens and manipulating currency-value betrays that.

When Mexico, egged on by the U.S., began its suicidal devaluations, Argentina promptly declared that it would do anything

and everything necessary to preserve the value of its money. The peso up to then had been pegged within a narrow range to the dollar. Cavallo has fixed it at a rigid 1-to-1 ratio.

Thanks to Cavallo, Argentina's peso promise is money good. The country has a functioning currency board: Every peso is backed by dollars or gold. Buenos Aires had no problem stemming a post-Mexico panic. (We should make our bailout package for Mexico contingent on its adopting a currency board to restore its peso. Mexico should consult Johns Hopkins economist and FORBES columnist Steve Hanke, who has worked closely with Cavallo on this.)

From bitter experience, Argentina knows that sound money is essential for long-term economic growth and individual opportunity. Why do others find that so hard to accept?



Cavallo: That rare economic policymaker who actually understands money.

SOUL SEARCHING

THE SOUTH KOREAN economy is running full-throttle after two years of subpar (by that country's standards) annual growth rates of 5%. Last year the GNP expanded 8.3% and should grow another 7.5% in 1995. Exports and imports each will easily breach the \$100 billion mark this year, an extraordinary record considering that 30 years ago per capita income was under \$100.

Seoul, however, is anything but complacent. It knows it faces fundamental problems—and not only those posed by the North. Like Japan, South Korea has held direct foreign investment at arm's length; trade barriers are prolific. Unlike Japan's, this country's leaders recognize the South must rapidly open up to develop a true world-class economy.

Thanks to the decade-old democratization process, South Koreans have been demanding—and getting—a higher standard of living. Labor costs have exploded. One CEO noted that a few years ago he could hire a clerk for \$300 a month; now he must pay \$1,000. South Korea is increasingly noncompetitive in traditional low-wage industries such as textiles; hence, the impetus for more openness if the nation is to attract the capital and technology to be a high-tech powerhouse in services and manufacturing and to have access to overseas markets.

President Kim Young Sam has emphasized the concept of "globalization," which has been surprisingly well received, at least at the top levels of business and government, and is facilitating the process of liberalization.

South Korea isn't passively waiting for foreign pressure before it opens its economy. It wants to join the OECD, so it is starting to ease financial controls. A former South Korean cabinet minister is making a strong run to be director general of the new World Trade Organization.

But the process of liberalizing South Korea's economy has a way to go. Even today South Korean companies must get permission to make capital payments overseas. And foreign firms face numerous obstacles trying to set up facilities in the South, including land costs and restrictive regulatory trip wires, arbitrary tax assessments and insufficient intellectual property protection laws. The country received black-eye publicity for allegedly auditing the returns of citizens who bought non-Korean-made autos.

Taiwan, which has outpaced South Korea, has demonstrated that economic sinew can originate from a proliferation of small and middle-size companies. But Seoul's chaotic banking laws make it extraordinarily difficult for a vibrant entrepreneurial class to flourish. Banks do very little lending with what is a closed system. Interest rates for most borrowers are 14% and higher, even though domestic inflation is only 6%. If they were barred from doing so, major business groups could borrow directly from international markets. Such deregulation would force domestic lenders to cultivate a whole new class of business clients. But banks are owned or controlled by the government, and such change would dilute life-and-death powers of bureaucrats.

Fortunately, President Kim has shown a yen for reform. Two years ago he shocked his countrymen with legislation forcing owners of financial assets to use their own names rather than employ proxies. Now he is doing the same with real estate, which has locals grumbling that this is a cause of a slump in property values. The President's next offensive will deal with gender discrimination. Despite antidiscrimination laws, it is a firm tradition among many employers to automatically fire women when they get married. Kim is preparing a major enforcement offensive to overturn the



MSF Jr. with the South's new reform-minded prime minister, Lee Hong Koo.

Christian Frost

DEADLY NEGLECT

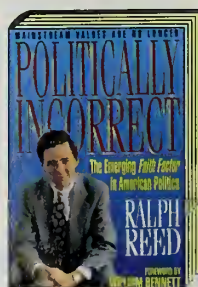
ONE PROVISION of last year's pork-laden crime bill should be retained and strengthened: Senator Orrin Hatch's (R-Utah) \$20 million appropriation for the Violent Criminal Apprehension Program (VICAP). VICAP has languished since it was created ten years ago because of chronic underfunding. This is, you might say, criminal.

The program is a data bank of the nation's unsolved

murders—which grow at a rate of nearly 9,000 a year. Mobile murderers have been escaping the apparent short arm of the law, in part because of the inability of law enforcement officials in different jurisdictions to share information. Experts believe that an effective VICAP could lead to the resolution of several hundred unsolved killings a year.

MOSTLY CORRECT

Politically Incorrect—by Ralph Reed (Word Publishing, \$19.99). Most exceptional about this book, written by the head of the Christian Coalition, is how unexceptional its principal points are. As others such as Bill Bennett have done, Reed notes the decline in the quality of American life over the last 30-odd years: the explosive growth of out-of-wedlock births, violent crime, divorce, deteriorating school standards, etc. He understands what politics can and cannot achieve and recognizes that there are reforms—tax cuts, school choice, welfare changes, etc.—



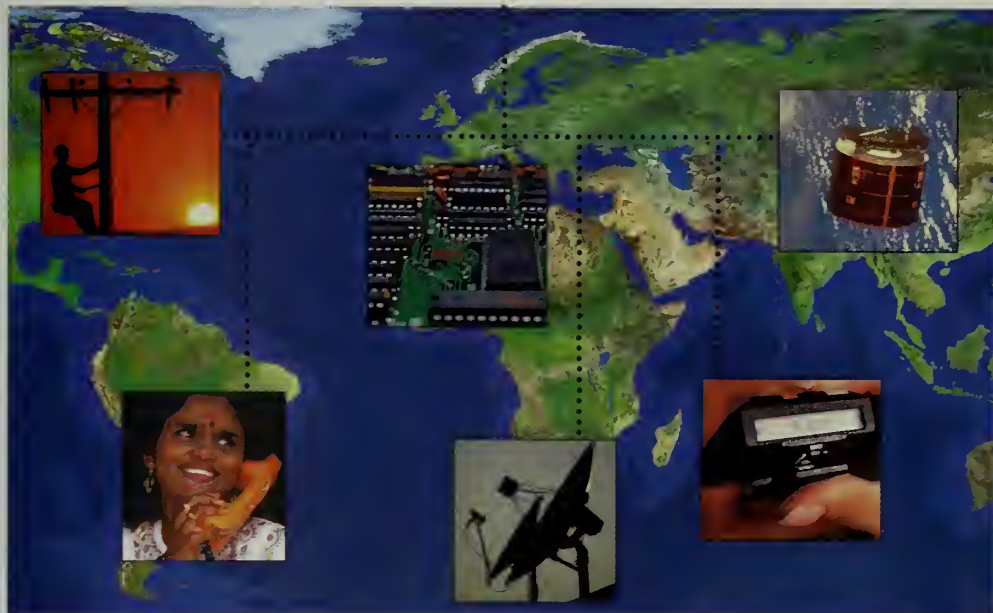
which evangelical Christians and Catholics can work closely with others to help implement. The book also deals forthrightly with how the moral authority of the evangelicals was severely compromised in the past by their support of segregation and other forms of racism. Reed admonishes Billy Graham for not more openly, forcefully working for civil rights in the 1940s and 1950s.

What comes through in this book is that most members of the so-called Christian Right are actually average citizens advocating change that most Americans now support. ■

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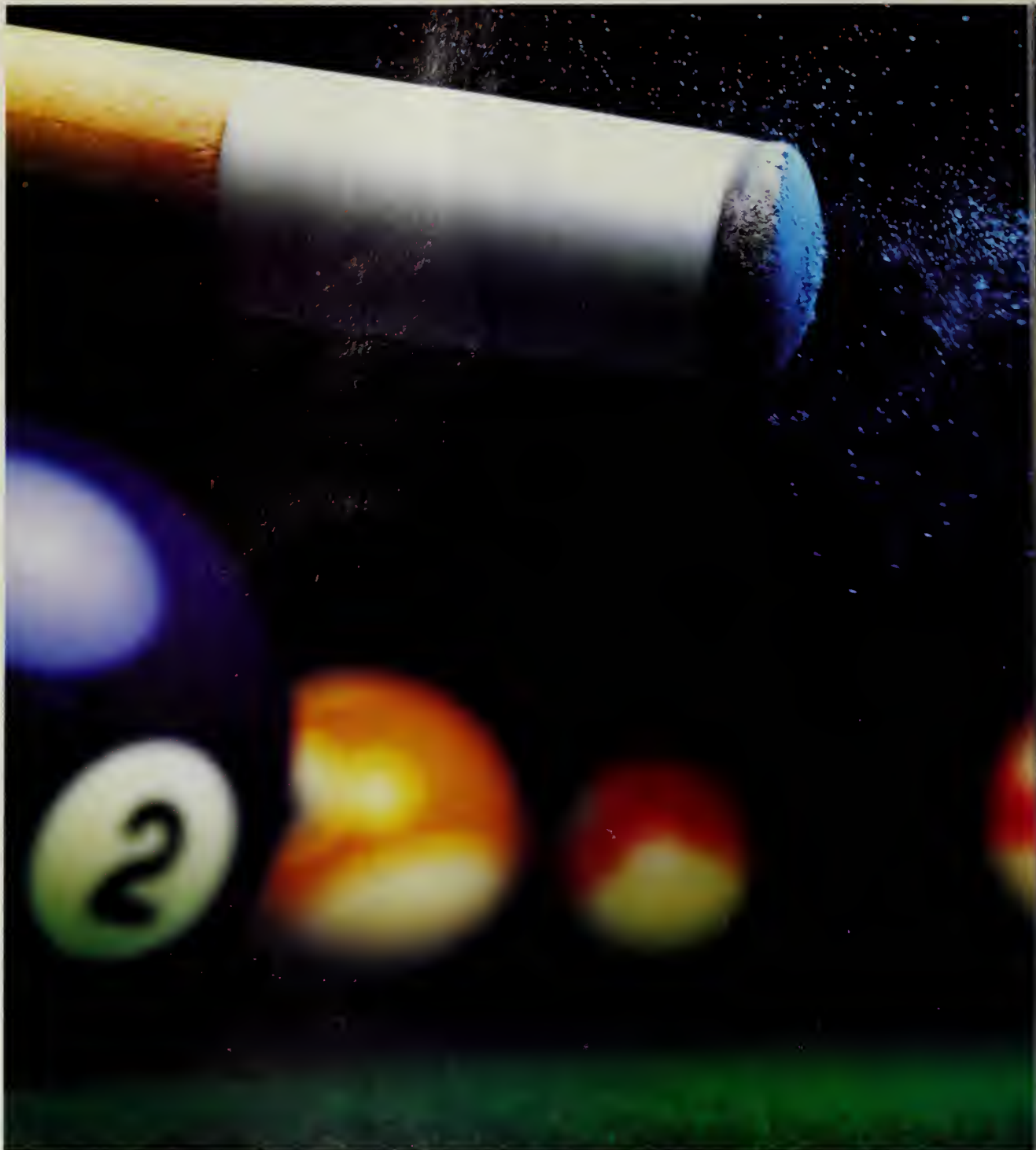
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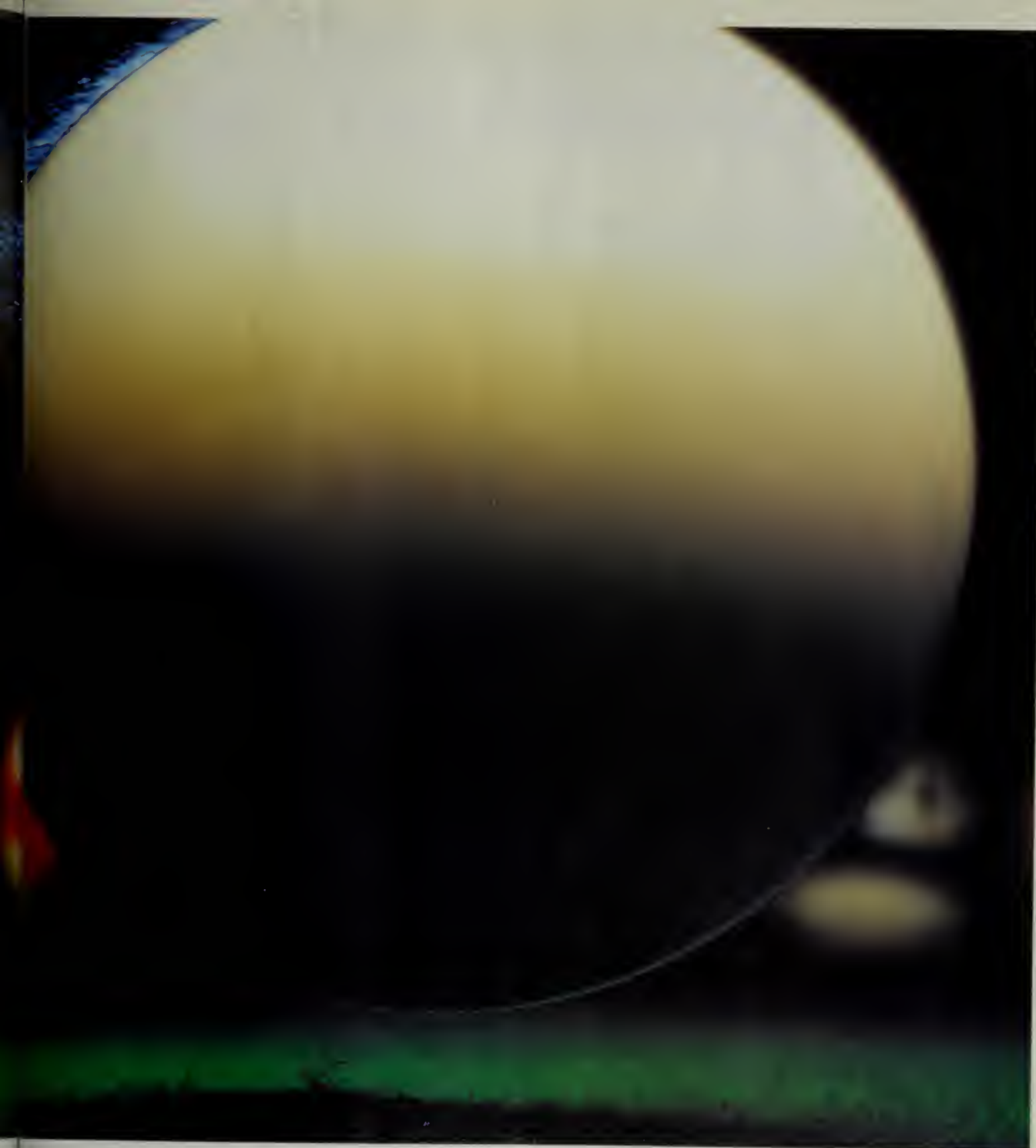
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inding the right investors — ones who would support strategy and make long-term commitments. There were negotiations, strategy sessions, and simultaneous roadshows for both the debt and equity markets. All this while running your company's day-to-day operations.

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Other Comments

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—CHRISTINE TODD WHITMAN,

Governor of New Jersey, in her first State of the State speech

Paper Cut

THE PRINT gets tiny and single-spaced like there's a paper crisis somewhere and you have to read twice as much to finish the same page. The effect on the reader is unbelievably disheartening, equivalent to the agony a marathon runner would feel on finding, 10 feet from the finish line, 4 flights of stairs. If you own books like this, they should be thrown out; they have an untoward influence on children.

—DOUGLAS MCGRATH,

New York Times Book Review

Contract With South America

WHEN I ASKED Argentina's Economics Minister Domingo Cavallo for his definition of money, six months after his January 1991 appointment, he cut into a discussion of social contracts.

"Each peso," he stated, "is a contract between the government and the peso holder. That contract guarantees that each peso—as a unit of value that the holder has worked hard to get—will be worth as much tomorrow as it is today. If the government breaks that contract, it's breaking the law. The only role of the government in the economy should be to guarantee the integrity of market transactions."

—DAVID ASMAN, *Wall Street Journal*

Twisted Logic

CONFEDERATES CLAIMED to fight for the same liberty their forefathers had won in 1783. "The perfect liberty they sigh for," said Abraham Lincoln, is "the liberty of making slaves of other people." But Confederate soldiers, unlike many of their forebears of 1776, seemed unconscious of the paradox.

—JAMES M. MCPHERSON,

What They Fought For, 1861-1865

PolySci 101

ACCORDING TO THE Higher Education Research Institute, this year's college freshmen are less interested and involved in politics than ever before. Why should they not be?

Newspapers abound with stories about how political leaders are turning to New Age gurus, futurist thought

and other such retreats from reality. The Clintons are leading the flight.

But now it appears that even Newt Gingrich is departing reality for seances with the Tofflers of Washington. And House Budget Committee Chairman John R. Kasich handed over the session on budget balancing over to a team of "creative consultants" to incubate new ideas on the budget. In the chambers of the House Budget Committee [they] essayed to provoke "new ideas" by holding a "Nerfball" fight.

College freshmen are right to avert their gaze from this depressing scene.

—R. EMMETT TYRRELL JR.,

New York Post

Government can't do anything for us without first taking from us the means to do it. Its only tool is force—usually the worst possible tool to apply in social matters.

—GEORGE ROCHE, president, Hillsdale College, *Imprimis*

Clinton's Core Problem

MR. CLINTON, quoted in *Newsweek* said, "I find it amazing that anybody could question whether I have core beliefs." Does this mean that his core belief is that he has core beliefs, or that he has a core belief that no one else could disbelieve his core belief that he has core beliefs?

—*National Review*

Dogmatics

THE EMISSARY despatched by Henry VIII to the Pope to procure the annulment of his marriage to Queen Catherine took along his dog. As the emissary bent down to kiss the Pope's toe, the foot moved. The dog immediately suspected that her master was about to be kicked in the face. She pounced on the Papal toe. It was a bad beginning and may have decided the Pope to refuse the annulment. Perhaps—but for the dog—Henry VIII would have remained a Roman Catholic and the Church of England never founded.

—*Majesty* magazine



"Not one crummy Valentine."

Drawing by Frascino. © 1994 The New Yorker Magazine, Inc.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Chairman*



ROBBING DEFENSE TO PLAY POLITICS

FOR AN ADMINISTRATION that wants to mislead the people into believing it supports a strong defense but in reality prefers to spend funds on politically popular domestic programs, there is an easy way out: Use the defense budget to pay for these nondefense projects. In civilian life this is called "misappropriation of funds."

In January the Clinton Administration casually announced that payment for the first shipment of crude oil promised to North Korea as part of last year's infamous appeasement agreement was coming out of the Pentagon's emergency fund. This demonstrates once again that the defense budget is used as if it were a savings account open to anyone for any purpose.

The first "gift" to North Korea is a comparatively small amount—50,000 tons of crude oil (worth about \$4.5 million) out of a promised annual shipment of 550,000 tons, which the agreement obligates us to provide. It is somewhat of a paradox that the Defense Department, which spends in excess of \$2 billion annually to deter an attack by North Korea against the South, is now having its hard-won funds used to strengthen the North's staggering economy. One of the Administration's reasons for tapping the defense budget was that the Pentagon's "emergency funds" were already appropriated; this way the White House has avoided having to get Congress' formal approval of the accord. Congress, however, may be more than interested in this particular use of the term "emergency."

This episode emphasizes the increasingly undesirable habit administrations have formed of using defense funds for nondefense purposes. A Heritage Foundation study, based on a General Accounting Office review, reports that between fiscal years 1990 and 1993 \$10.4 billion in the defense budget was used for such civilian activities as World Cup Soccer, the Summer Olympics and the National Defense Center for Environmental Excellence. If, as some in this Administration claim, "it is all Congress' fault," one would think this would be a strong argument for giving the President the line-item veto—and hope that he will use it.

Congressional Research Service (CRS) studies point out that for the fiscal period 1990-94 total defense spending

fell 25%, while nondefense spending from the defense budget rose 361%, to \$13 billion. The CRS refers to this nondefense spending rather diplomatically as "items that may not be directly related to traditional military capabilities." Some particularly egregious examples of these nondefense programs funded by the Pentagon in the 1995 budget include: \$10 million for Los Angeles Youth Programs, \$150 million for breast cancer research, \$4.25 million for prostate cancer research, \$623 million in subsidies for persuading manufacturers to reinvest in nondefense

industries, a \$5.2 billion item for environmental restoration and compliance with various environmental and pollution programs, and yet another \$1 billion charge for something labeled Personnel Assistance programs.

There are many others, all of which add up to something over \$11 billion for nondefense items in 1995 alone. At a time when we have been told by the Secretary of Defense that three of the Army's divisions are not prepared for combat, and when there are large

maintenance backlogs, a lack of training funds and when modernization is delayed or canceled, it would seem self-evident that all available funds should be used to correct these shortcomings, to strengthen and modernize our already weakened military. Just last December the Pentagon announced that it was delaying or canceling seven major weapons systems to save \$7.7 billion over five years—and this at a time when the Administration has taken \$11 billion out of the 1995 defense budget for nonmilitary programs.

Of course, some of these nondefense programs are worthy enough to be funded. But in the interest of honesty and our own security, they should be funded from sources other than the Defense Department.

The ultimate horror—and not far-fetched—will be the Administration's deciding that the funds to pay the enormous cost of appeasing North Korea will come out of the defense budget. This appeasement has been well described as paying North Korea handsomely to return to the non-nuclear obligations it had previously taken on and violated.



Former President Jimmy Carter to the left of President Kim Il Sung, agreeing on appeasement.



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Overleveraged consumers

THERE'S A GHOST in the machine of consumer spending. Last year's spending growth was built on an unsustainable rise in consumer debt.

Consumer spending rose by \$256 billion between the third quarter of 1993 and 1994, to \$4.66 trillion. Of that increase, \$112 billion, or 44%, was in the form of added installment debt (including \$47 billion on credit cards and \$40 billion on auto loans).

"That 44% is the highest figure I could find historically," Federal Reserve Governor Lawrence B. Lindsey told the National Econo-

mists Club in Washington recently.

The sharp increase in credit card use deserves special attention. Credit card debt grew at an annual rate of around 17% in the first ten months of 1994, up from a 12% rate in 1993 and a 9% rate in the early 1990s recession. Worse, in November (the latest data available) plastic debt shot up at a 25% annual rate.

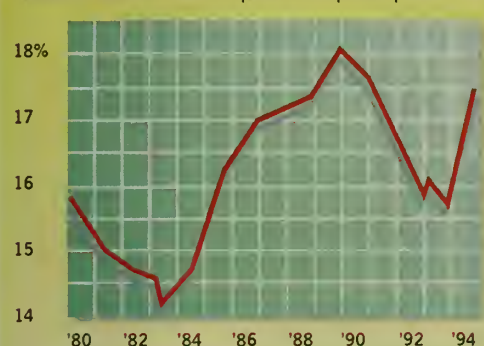
What about mortgage debt? The underlying trend here is not reassuring, either. Taking advantage of lower rates, consumers refinanced and reduced their monthly payments. But they have also been consuming the equity in their homes. Mortgage debt accounted for just 28% of the value of the nation's homes in 1984, but 41% by 1992. The trend continues.

Already there are the first signs of consumer strain, as any merchant this Christmas might have told you.

Retail sales in 1994's fourth quarter (over the prior quarter, at a seasonally adjusted annual rate) were up by around 8%. But that was less than the growth shown in the same quarter in the three preceding years. December's slow pace picked up late in the month, but thanks only to heavy discounting. Consumer durable goods, thanks to strong auto sales of late, now account for over 40% of total retail spending. A slowdown in autos later this year looks increasingly likely.

Maxed out?

Consumer installment credit as a percent of disposable personal income



Source: Federal Reserve System

Two ridiculous proposals on foreign labor

HERE ARE TWO EXAMPLES of silly time- and money-wasting regulations on foreign labor that a Republican Congress can and should stomp on, quick.

Last month Robert Reich's Department of Labor imposed tighter rules on employing foreign professionals in the U.S. Every year up to 65,000 highly qualified workers on special H1-B visas are allowed to work here for up to six years. Companies like Microsoft, Motorola and Intel rely on these skilled foreigners.

But now the Labor Department is imposing masses of new red tape (the new rules cover 30 pages of fine print in the Federal Register) designed to discourage hiring H1-B workers. Says James Holt, a Washington economist who works for employers on labor issues: "The Labor Department bureaucracy reflects the view of organized labor, which has always opposed admitting aliens to do any work." Great policy, restricting the flow of the most productive human capital into the U.S.

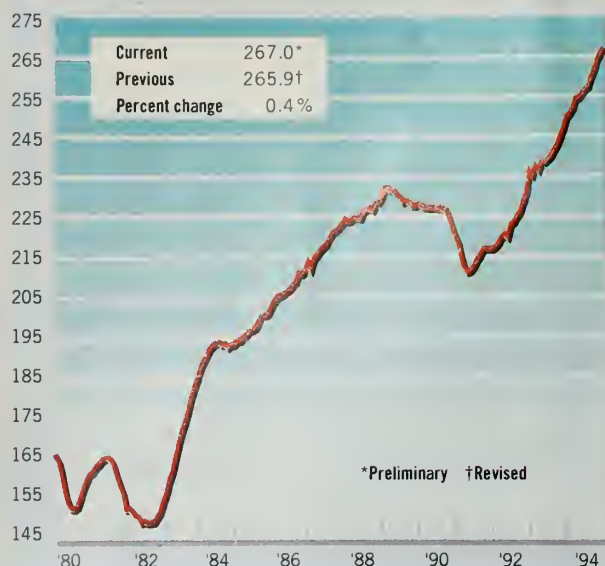
Then there is Joseph Duffey, head of the United States Information Agency. Determined that no good program should go unpunished,

Congress told him last year to regulate the au pair cultural exchange program, which each year allows some 10,000 young Europeans aged 18 to 26 to come to the U.S., live with American families and help look after the kids. They work no more than 45 hours a week and receive \$100 a week on top of room, board, transportation and health insurance. After a year they return home.

The au pair program helps young foreigners learn about America, and is great for two-income American families with young kids to mind. But USIA's proposed rules would strangle the program with red tape—for example, by banning au pairs under 21 from minding children under 2, forcing up the weekly stipend and making host families attend regular seminars on "cross-cultural issues" and child care. Duffey's proposed rules would add one-third to today's \$10,000 a year cost of hosting an au pair.

Faced with mounting protests from hard-pressed parents, Duffey is retreating on some proposals, pushing ahead on others. The new Congress should turn his retreat into a rout. ■

The Forbes Index (1967=100)



Higher interest rates seem to be doing their thing. December housing starts were down 4% below the December 1993 level. Retail sales in December were also down slightly from November. Dean Witter chief economist Joseph Carson says that although consumer goods and housing seem to be slipping, capital spending and increased exports will take up the slack. According to Carson, such a transition typically marks the midpoint of an expansion cycle. He thinks that low inflation will help the economy grow 2.5% to 3% this year.

Other key rates

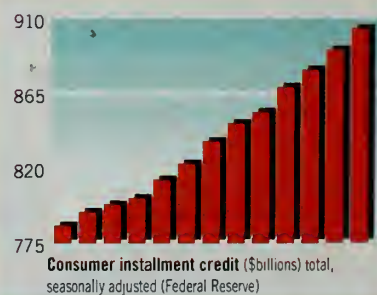
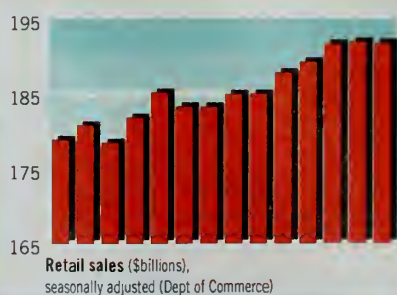
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5
Auto sales year to date vs 1993 ¹	Ward's Automotive	7.6
Index of leading indicators Nov vs Oct	Dept of Commerce	0.3
Trade balance ² 12 months ended Nov 1994	Dept of Commerce	-\$105
All-commodity producer price index ³ Dec vs Nov	Dept of Labor	0.2
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	4.0
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	-0.3

¹ U.S.-based manufacturers, excludes imports, as of 12/31/94. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.

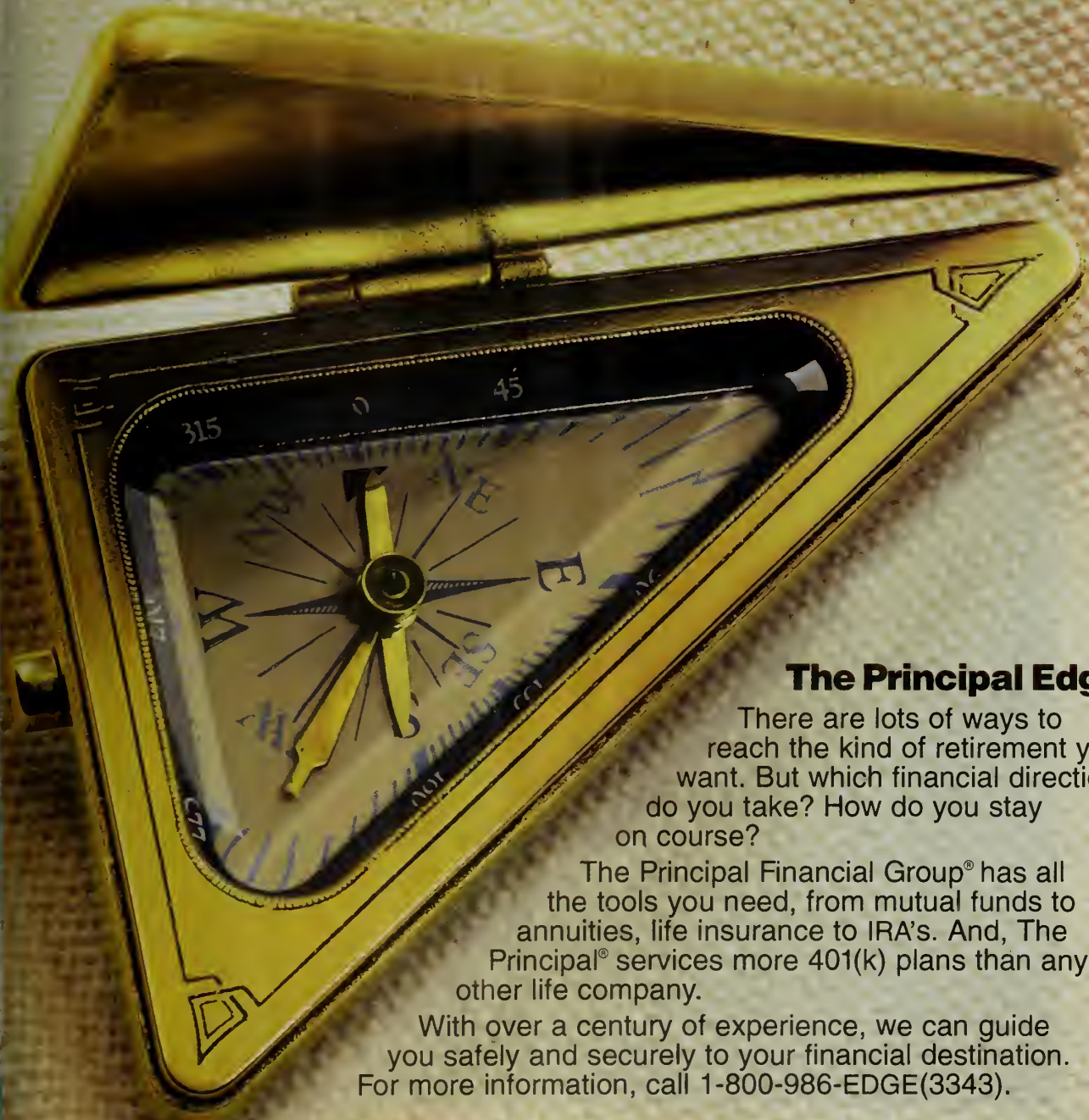


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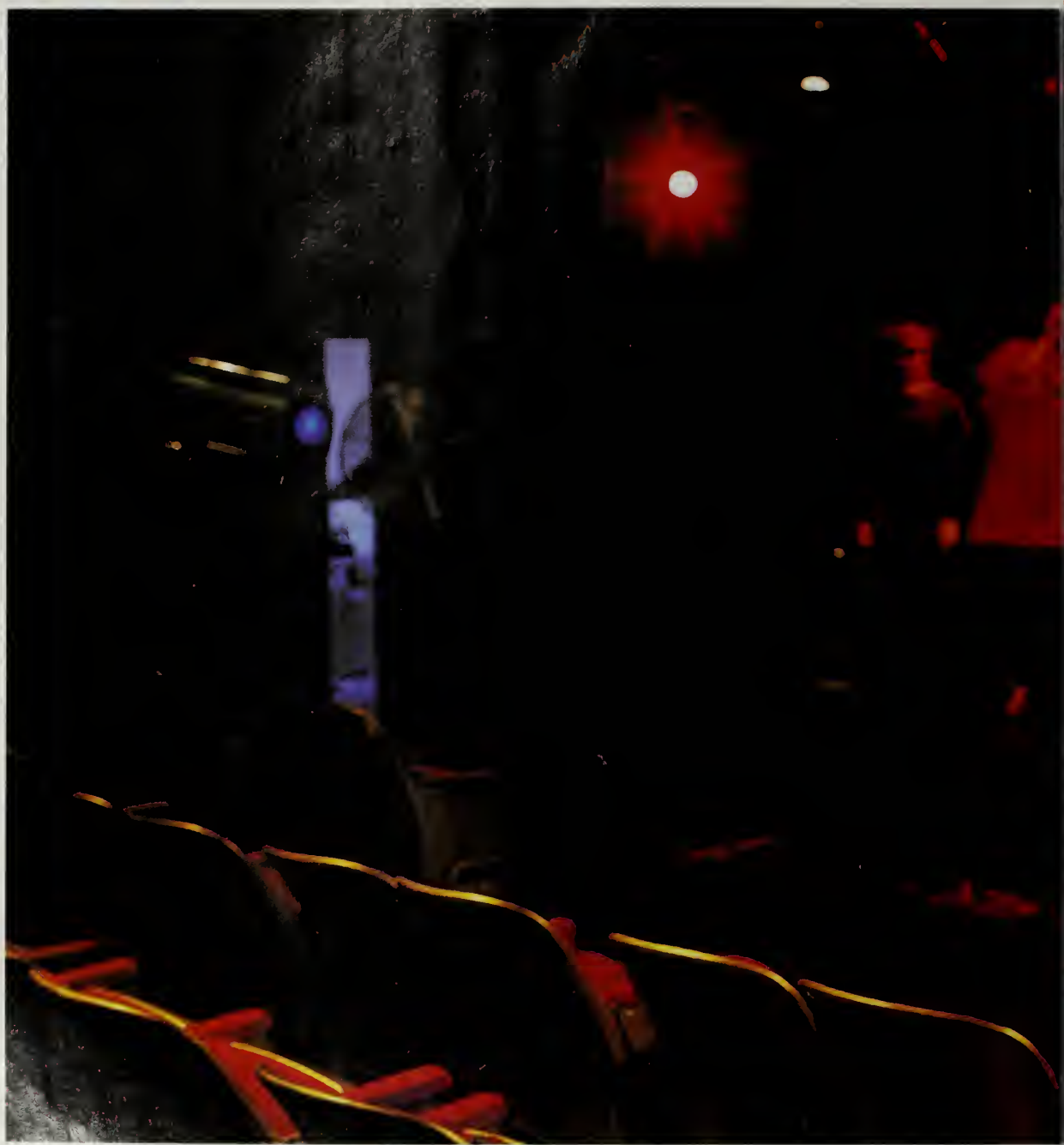
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In business as in war, victory doesn't necessarily go to the biggest battalions. So don't snicker when we report that Ford is determined to be bigger worldwide than GM.

"You know what's in my heart"

By Jerry Flint

"EVER SEE A TEAM run on the field saying, 'We want to be number two, we want to be number two?'" Alex Trotman, Ford Motor Co.'s chairman, exhorted his executives, nearly 2,000 of them, gathered in Orlando, Fla. from around the world in November.

The crowd got the point: Being number one is the only worthwhile goal. Can Ford, with worldwide revenues of close to \$130 billion, really be dreaming of overtaking GM, which last year beat it by about \$25 billion? FORBES asked one of Ford's highest-ranking executives: "Do you think you can beat GM?" He replied softly: "You know what's in my heart."

"Beat GM" is not something Ford people say to outsiders. They will say, as Trotman does, "We're going to be the world's leading auto company."

Ford people know the gap is huge and has existed for nearly 65 years, ever since old Henry Ford stayed too long with his clunky old Model T, waiting until 1927 to retire it. They also know that sheer size isn't chic these days. The modern executive is supposed to focus on the bottom line, not on the top line. Nevertheless, the Ford folks knew what Trotman meant when he said to them in an emotionally charged moment: "All things are ready if our minds be so." With the briefest pause, Trotman added: "Are you ready?" The crowd roared back: "Yes!"

Given the history, given the traditional rivalry, the Ford boys would be less than human if they didn't feel driven to strive toward the sales lead as



well. Old Henry's grandson, Henry Ford II, and a team of brilliant hotshots tried to take the crown back in the 1950s. But the "Big Plan," as it was called, collapsed in humiliation with the Edsel.

GM still seems impregnable, outselling Ford by over 1 million cars and trucks in the U.S., where its capacity and marketing strength are far above Ford's. Outside North America, GM outsells Ford by up to 500,000.

But that 1-million-vehicle gap in the U.S., though enormous, has narrowed. Ford trails GM's market share here by 8 points. In the 1950s the car gap was 20 points. Ford cars outsell Chevrolet cars regularly. Lincoln has a shot at catching Cadillac this year.

Ford's biggest weakness is an ancient one: GM's Buick, Oldsmobile and Pontiac overwhelmed Ford's Mercury by 1.2 million cars last year.

Ford's strongest lines are its trucks, meaning pickups, utility vehicles and vans. Ford trucks almost match the U.S. sales of Chevy and GMC trucks combined, and worldwide Ford outsells GM in trucks.

If in trucks, why not in cars? Ford Explorer capacity is being increased to 450,000 from 300,000, and a bigger utility vehicle will be in production in two years. That means Ford can create a utility vehicle for Lincoln and maybe Mercury or Jaguar.

For a new division, Ford officials say they are likely to expand the Jaguar franchise. Today Jaguar sells 15,000 cars in the U.S. Ford's top officials can see a full line of Jaguars, including smaller, medium-priced cars, selling 50,000 to 100,000 units a year. It could be, in effect, a third division to help battle GM's seven.

To maintain strength at the bottom of the market, Ford people are thinking of a smaller, lower-priced car, something like the short "city" cars being created in Europe.

Ford thinking is that those seven divisions are more than GM can support effectively. They doubt whether GM can create enough product to support all of its vehicle divisions. If they are correct, it means that new

Ford designs, like the 1996 Taurus and Sable, will be selling against some old GM designs for years to come.

Abroad, Ford has a tougher job. Almost a decade ago Ford was equal to or better than GM in overseas sales.

What happened? In Europe it was revolving-door leadership, mediocre product and the long recession in Britain, Ford's major market. In Latin America, a now-being-dissolved merger with Volkswagen did the damage. Meanwhile, GM's most aggressive manager, Lou Hughes (*FORBES*, Oct. 24, 1994), now head of all GM international operations, improved product, cut costs and gained market share. GM went from losing money abroad in the mid-1980s to a \$1.6 billion overseas profit in 1993, while Ford sank to a \$542 million loss in 1993 from almost \$2 billion in overseas profits in 1988 and 1989.

Ford says new product is coming in Europe and Latin America. It is pushing hard for footholds in China, India and Southeast Asia. It announced a vehicle production plant for Poland—its first in Eastern Europe.

A near decade of superior profitability has put Ford ahead of GM in financial strength. In 1986 Ford surpassed GM in net profit after lagging in that department for decades and has stayed ahead since then in every year but one. So Ford is brimming with cash. At the end of September 1994, Ford's cash and marketable securities minus its debt was \$7 billion, while GM's was \$1.6 billion. GM has been penalized and still is by manufactur-

Ford Chairman Alex Trotman (right) and President Ed Hagenlocker at the Detroit auto show

Showing off the cars they hope will help make the company number one again.



William, Benson and Henry Ford II—in a 1957 Edsel
The car bombed and crushed Ford's plan to beat GM.



ing costs, which are considerably higher than Ford's.

The heart of Ford's leadership dream is its reorganization, called Ford 2000. In an era when many companies are decentralizing, Ford is going in the opposite direction, determined to get the economies of scale achievable from offering local variations on a few international platforms rather than offering completely different cars for different markets. Ford's European people will design smaller cars and its American factories will build variations of those designs. Ford U.S. studios will concentrate on larger vehicles. Common engines will be spread across continents. Besides saving money, it is hoped this product simplification will reduce bureaucracy and, most important, speed up product creation and open the way for more product variation.

Ford is betting a great deal on its one-world strategy. It might not work. It just might be faster and less costly to create different products for markets that are quite different, like

GM pulled ahead of Ford in 1927 when old Henry Ford kept his Model T too long.

the U.S. and Europe. If Ford is wrong, Ford 2000 could be a debacle greater than Edsel.

Meanwhile, GM will not be standing still. Its North American operations are profitable again, its market share decline seems to have leveled off, and GM, showing some of the old muscle, is launching an extremely strong line of utility vehicles. GM productivity, below Ford's today, improves with each new model launch. GM still is Goliath, but Goliath has shed a lot of the flab that made it such an easy target for a while.

Does it really matter if Ford beats GM? Does it matter who is biggest? The answer to that question is complex. In one way it doesn't matter; profits are what build corporate sinew. But aiming to become number one gives Ford people something to get fired up about. And, as Napoleon once said, morale is three-quarters of the game.

As big investors flee Mexico's financial markets, businessmen from all over flock to the border to book more space in Jaime Bermudez's *maquiladora* parks.

The flip side of devaluation

By Christopher Palmeri

WHILE MEXICO'S financial crisis makes headlines around the globe, a big part of Mexico's manufacturing economy is already adjusting.

For example: On a sunny Friday afternoon in mid-January, a group of Taiwanese clients visited the headquarters of Grupo Bermudez in Ciudad Juárez, the border city just across the river from El Paso. Grupo Bermudez is Mexico's largest developer of *maquiladoras*. Bermudez is the force behind many of those duty-free assembly plants that line the U.S./Mexico border from Tijuana to Matamoros and currently employ nearly 600,000 workers.

The Taiwanese were smiling, and with good reason. Despite the battered peso, they were very pleased with their *maquiladora* deal. Their company, Great City Industrial, sells plastic cabinets for personal computer monitors to Philips N.V. They had already decided to move part of their production from Taiwan to a Grupo Bermudez *maquiladora* in Juárez so as to be closer to Philips' plant there. With the peso's devaluation, they were getting a bonus: The average *maquiladora* worker's wage is expected to drop from \$2.50 an hour to \$2 an hour—less than half the average manufacturing wage back in Taipei, according to Ciemex-Wefa, consultants based in Bala Cynwyd, Pa.

Grupo Bermudez founder Jaime Bermudez expects the weak peso will generate a new wave of investment in the *maquiladoras* as manufacturers struggle to cut production costs. "To be competitive in the world market, you need cheap labor," says Bermu-

dez. "This is a fact."

Currently some 2,200 companies have *maquiladora* operations. Many of these are well-known multinational companies—Sony, Johnson & Johnson, General Electric, Siemens, General Motors among them.

Zenith Electronics, for example,

William Oberbach



Grupo Bermudez
Chairman
Jaime Bermudez
with sons Sergio (left)
and Jaime Jr.
**Some people
have predicted
that Mexico's
maquiladora
assembly plants
would fade away
after Nafta.
Instead, they
have been given
new life.**

already assembles in Mexico all of the 3 million TV sets it sells per year. It is about to start making picture tubes for projection televisions in Mexico. The company hopes to sell them to Asian setmakers manufacturing there. Because Zenith's 17,000 Mexican workers are paid in pesos, the company expects savings in the tens of millions from the devaluation.

Bermudez thinks that the big multinationals, his biggest customers, will be joined in increasing numbers by smaller companies seeking to make their products more competitive and to get closer to the operations of the big companies who are often their customers. The Taiwanese plastic company was an example of what he has in mind. Says son Jaime Bermudez Jr.: "With just-in-time inventory, suppliers are being told they have to be near the plants."

Maquiladoras operate on a simple principle: You can ship your raw materials and parts from the U.S. to

Mexico, where they will be processed by low-cost Mexican labor and returned to the U.S. as finished or semifinished products, paying customs duties only on the non-U.S. portion of the product. For Mexico it is a way of earning foreign exchange by exporting labor without exporting laborers. For poor Mexicans it is a way of making a decent living without having to brave U.S. border patrols. For U.S. manufacturers it is a way to stay world competitive without having to move their entire operations abroad.

Under Nafta's rules of origin, manufacturers are encouraged to source more of their product in North America. Many firms will still have to pay customs duties on components imported from outside the continent. But they can now manufacture in Mexico and ship to the U.S. and Canada without paying duties on the non-U.S. portion if enough of the components originate in North America, according to Luis García,

head of KPMG Peat Marwick's Nafta Center in Mexico City.

"There is a tremendous opportunity for U.S. suppliers to get a piece of [North American] markets now controlled by Asian countries," says Jaime Bermudez.

The Bermudez family were pioneers in creating this thriving border industry. Jaime's uncle Antonio, a former director of Mexico's state oil company, Pemex, commissioned the now famous Arthur D. Little study that proposed the *maquiladora* industry in 1964. Jaime leveraged his small construction company to build what is now Mexico's largest *maquiladora*, the 430-acre Antonio J. Bermudez Industrial Park in Juárez. Since breaking ground on that park in 1967, Grupo Bermudez has built more than 14 million square feet of *maquiladoras*. On new five-year leases, their space rents for around \$5 a square foot per year.

Peso devaluation, no matter how painful for many Mexicans, always helps the *maquiladoras*. On the eve of the 1982 devaluation, *maquiladora* employment stood at 110,000. As the peso slid in the mid-1980s, employment grew to 300,000. By last year the figure hovered near 600,000.

As 38-year-old Sergio Bermudez, another of Jaime's sons, drives a visitor around Juárez in his new Ford Explorer, he talks excitedly about plans for new *maquiladora* plants, houses, golf courses, shopping centers—"a whole new city" built on Bermudez acreage.

While Sergio runs the family's real estate development arm, brother Jaime Jr., 45, has taken the family directly into manufacturing by running three small plants that contract out to larger *maquiladora* operators. Workers at one Bermudez plant crank out small coffeemakers for Melitta, a German company trying to get a bigger piece of the U.S. coffee market.

A visitor to this facility feels as if he were in a true global village. Mexican workers use Japanese and U.S. injection molding machines, U.S.-made plastic resins from Amoco, Huntsman Chemical and GE, and warming plates made in China. Another Bermudez plant makes metal stampings for TV set makers Toshiba, Thomson and Philips—global competitors all. ■



Indexing of the prices of capital assets makes sense. Enacting and implementing an indexing law could be a nightmare.

The impossible reform

By Laura Saunders

ONE OF the great injustices of the tax code is that people pay taxes on phantom gains due to inflation. If you buy stock for \$10,000 in 1970 and sell it in 1995 for \$40,000, after the general price level has quadrupled, you have only broken even. But you will have to report a \$30,000 capital gain.

One of the crusaders for reform of this injustice is Representative Bill Archer (R-Tex.). Since the mid-1970s Archer has submitted bills to index the prices of capital assets for inflation. He put indexing into the House Republicans platform. And as the new chairman of the House Ways & Means Committee, Archer can help see that they do. "He believes indexing is the right thing to do, and is committed to it," says a spokesman.

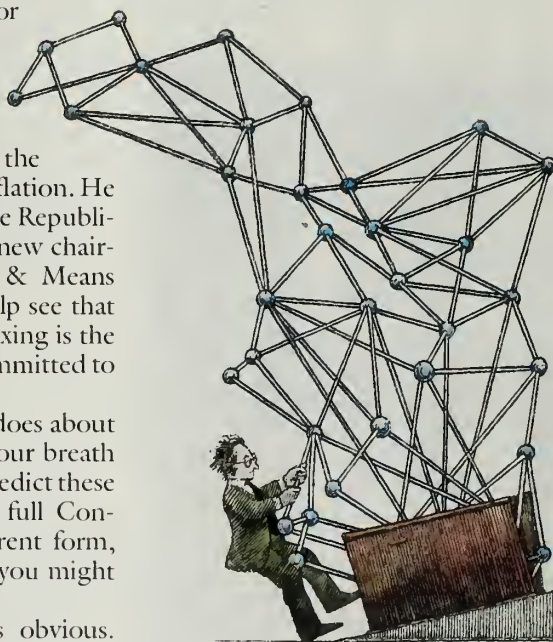
But whatever Congress does about capital gains, don't hold your breath waiting for indexing. We predict these provisions won't pass the full Congress, at least in their current form, but will succumb to what you might call technicalities.

The first technicality is obvious. Indexing makes life hellishly complex for people filling out tax returns. Bad enough that you have to calculate an inflation adjustment for the purchase price of your house. But say you also add a room, a driveway and central air-conditioning, each in a different year. Under present law you add up the total cost and make that the tax basis of your home.

Indexing turns this relatively simple task into something only a mathematician could love: Each improvement would have a different inflation ad-

justment, depending on the year it was made.

And what if you reinvest dividends in a balanced mutual fund, which mixes indexed assets (stocks) with assets that aren't indexed (bonds)? You'll need a full-time accountant to get it all straight.



Chris B. Sackman

"Taxpayers are notorious for not understanding [cost] basis as it is, without requiring a set of extra computations," says Thomas Ochsen-schlager, a CPA at Grant Thornton.

Proponents may talk their way around the complexity issue. But the other technicality is a huge problem. It's that Archer's indexing is asymmetric: It indexes assets but not debt. Because of that, it would be possible for investors to borrow money and deduct the interest cost fully, while

investing the proceeds in indexed assets and paying tax only on real gain. This could lead to an epidemic of speculative borrowing.

Given the creativity of our financial industry, this would certainly open new tax shelters for both corporations and individuals. Here's the kind of thing Wall Street would peddle:

Acme Co. borrows \$1 million 10% for a year, and fully deducts the interest of \$100,000. Then it invests the \$1 million in a basket of S&P 500 stocks. It eliminates market risk by selling the basket in a forward transaction one year out, at a price of \$1,070,000, and counting on \$30,000 in dividends.

Then assume there is 5% inflation. When the transaction is over, on \$20,000 of the \$70,000 nominal gain is taxable, even though all of the \$100,000 interest cost was deductible. Given a tax rate of 35% on both the \$20,000 gain and the \$30,000 in dividends, Acme would net \$17,500 with no risk. But it has added no capital to the economy and created no jobs with this shenanigan.

Couldn't Congress outlaw indexing with hedged transactions, much as it has outlawed similar manipulations of the interest deduction? Probably, but in this case the antiabuse rules would entangle investors in complex dollar tracing, says Robert Willens, a CPA at Lehman Brothers. Dollar tracing is hard to do because all dollars look alike. Yet somehow the taxpayer and the Internal Revenue Service would have to agree on whether it was the dollars from the loan or the dollars from that asset sale that financed this new indexed asset.

And so, commendable as indexing is, it's a fair bet that Archer will have to compromise on his long-sought goal probably when the tax bill reaches the Senate. There might be rough justice in denying investors indexing but giving them a more generous exclusion of capital gains from tax. Currently the Republicans are talking about excluding 50% of long-term gains. They could compromise by raising the exclusion to 60% and skipping the indexing of asset prices. Since the real goal of reducing capital gains taxes is to encourage job-creating investments, maybe this is the smartest way to go.

Replacing Teddy Kennedy as head of the Senate Labor & Human Resources Committee is a quiet Republican who plans to gore some very sacred cows.

Reformer

By Janet Novack

FOR YEARS Kansas Republican Senator Nancy Kassebaum has been a relentless critic of federal job training, a mishmash of 163 federal programs costing over \$20 billion a year and much beloved by Clinton sidekick Labor Secretary Robert Reich.

But this criticism from a member of the minority party was just water off the duck's back for the reigning Democrats. Last year, when Senator Edward Kennedy still headed the Senate Labor & Human Resources Committee, Kassebaum proposed a bill clos-

ing down all existing training programs after two years and looking for programs that might work. The Democrats quickly squashed that sensible idea. But now Kennedy is in the minority and Kassebaum is head of the committee.

Thus when Republicans start proposing budget cuts to pay for tax cuts, Kassebaum will have some powerful suggestions. "Everyone agrees there are real problems in job training," says Kassebaum. "But we give time to some hearings, add another program

and think we've fixed it." No more, she vows.

One program almost certain to be curtailed is the \$1.1-billion-a-year Job Corps. A favorite of Reich's, this program is supposed to teach poor 16- to 24-year-olds job skills and discipline while they live and eat in government-paid dormitories. Cost: \$23,000 per participant per year.

Labor Secretary Reich and other friends of Job Corps claim the program is a big success. But Kassebaum and her staff have investigated Job Corps centers and found routine occurrences like "blanket parties," in which newcomers are beaten in their beds. At some centers, nearly 50% of the participants drop out within 90 days, some to escape the violence.

The bureaucracy, of course, puts the best possible face on the multi-billion-dollar job training disaster. For example, the Labor Department counts a Job Corps graduate as successfully "placed" once he or she has worked a job for 20 hours, even if the



Nancy Landon Kassebaum, Chairman of the Senate Labor & Human Resources Committee

Neither knee-jerk liberal nor flaming conservative, she intends to get the federal government out of the welfare business.

graduate quits after 21 hours. Kassebaum says Job Corps and other training program participants often simply cycle through one expensive training program after another. One former welfare recipient told Kassebaum's committee how she went through seven job training programs over 10 years before she got what she really needed: basic math and reading skills.

In her quiet way, Kassebaum has strong views on welfare. Last year she advocated ending all federal funding for it and for food stamps and another food program as well. Together these account for nearly \$50 billion a year in spending. Each state would have to create its own program, according to its means and the wishes of its voters. But Kassebaum isn't just out to save money. She firmly believes—as do many welfare scholars—that helping the needy can be done more efficiently and more compassionately by local governments. Says Kassebaum: “I just don't believe we can reform welfare from here [Washington].”

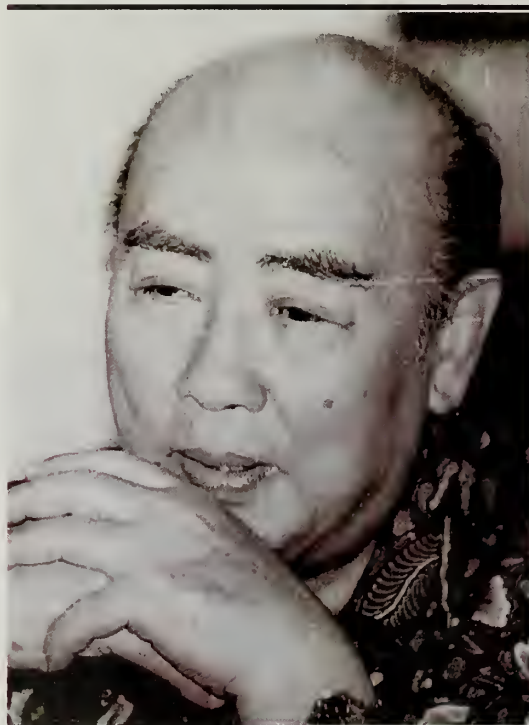
In return, the federal government would pick up from the states full responsibility for funding and managing the federal/state Medicaid program, or at least the part of it that serves the elderly and disabled. Making Medicaid a federal responsibility would go a long way toward solving current practice, whereby Congress has piled expensive mandates on the states, while the states have used loopholes to milk extra Medicaid money from Uncle Sam.

Is Kassebaum tough enough to resist the inevitable pressures from the media and from the welfare constituency when they drench the country with warnings of starvation, infant mortality and the rest? Count on it. First elected to the U.S. Senate in 1978, Nancy Landon Kassebaum, 62, comes from a distinguished political family. Her father, Alf Landon, ran against Franklin D. Roosevelt for president in 1936, and she is steeped in prairie political lore. Nor is she a flaming conservative. It irks her that so many businessmen come to Washington to support job training programs when she knows full well they are just looking to the government to soften the impact of layoffs they are making. She is well aware that hypocrisy is no monopoly of the left. ■

Overseas Chinese business people tend to keep power within the family. The Liem family of Indonesia are an exception—and very happy that they are.

First Pacific's pearls

By Andrew Tanzer



Liem Sioe Liong (Salim) of Indonesia's Salim Group

Outsiders may apply.

FOR ALL their moneymaking abilities, the ethnic Chinese business clans have a major weakness. They jealously keep decision-making within the family. Only by marriage into the patriarch's clan can a nonfamily employee acquire real power within the group (*FORBES*, July 18, 1994). This reluctance to share power or wealth limits the ability of many Chinese-owned businesses to grow and assures that many will suffer under inept heirs.

Indonesian multibillionaire Liem Sioe Liong is a glaring exception to the rule. The Indonesian surname of

the Liem family's Chinese name is Salim. Based in Jakarta, Liem/Salim's main business, Salim Group, has holdings in everything from cement to noodles.

In the late 1970s Liem Salim encouraged his son Anthony Salim, to recruit nonfamily talent. Anthony Salim approached Manuel Pangilinan, a young investment banker then working for American Express Bank in Hong Kong. Pangilinan was a Filipino who was educated in Jesuit schools before receiving an M.B.A. from Wharton in 1968. Would Pangilinan set up a Hong Kong-based investment arm for the Liem family? He would.

In 1981, at age 35, Pangilinan acquired for the Liem/Salims a tiny Hong Kong finance company for \$1.5 million. From that seed has sprouted Hong

Kong-based First Pacific Co. Ltd., an emerging trans-Asia conglomerate that probably earned over \$120 million after taxes in 1994, on sales of about \$3.5 billion.

Shy and soft-spoken, Pangilinan now 48, admits he built First Pacific by trial and error. “Some acquisitions were mistakes of buying small companies with no strong market positions,” he says. “We’ve dumped ten companies the last few years.” Out went businesses like California’s Hibernia Bank, retailing in Hong Kong, securities brokerage and coffee trading units.

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Jean Brown

First Pacific Managing Director Manuel Pangilinan

On his string of pearls: companies with strong positions in high-growth economies.

What's left is what Pangilinan calls "a string of pearls." The strategy that has emerged from Pangilinan's early experiments is a coherent one: Invest in products and services with strong or dominant market positions in high-growth Asia-Pacific economies.

In Thailand, for instance, First Pacific's Berli Jucker subsidiary is the leading supplier of glass bottles to the country's rapidly expanding beer and soft drink industries. In Indonesia, First Pacific is the 41% owner of Darya-Varia Laboratoria, a leading pharmaceutical distributor. Pangilinan explains the appeal of drugs: "In Indonesia there is one doctor per 11,000 people. If you get sick, you go to the pharmacy."

The largest holding in First Pacific's distribution division is Hagemeyer, an early acquisition that still accounts for 60% of First Pacific's revenues. Based and publicly traded in Amsterdam, this century-old trading company is in a hodgepodge of businesses. It distributes European gourmet foods in the U.S., electrotechnical components such as switches in Europe, Moulinex electronics in Europe and Asia and GE

appliances in Australia. Last year Hagemeyer merged its Asian agencies with those of Swiss billionaire Stephan Schmidheiny's Cosa Liebermann, which markets Bally accessories and Puma sporting goods in Japan.

Through its First Pacific Davies real estate unit, First Pacific is probably

Pangilinan explains the appeal of drugs: "In Indonesia there is one doctor per 11,000 people. If you get sick, you go to the pharmacy."

the leading independent property management firm in Asia, with 110 million square feet of office, residential and commercial space under management. In early January a consortium led by First Pacific's 60%-owned Philippine subsidiary, Metro Pacific, won the rights to redevelop a 535-acre former military camp in down-

town Manila with a \$1.6 billion bid.

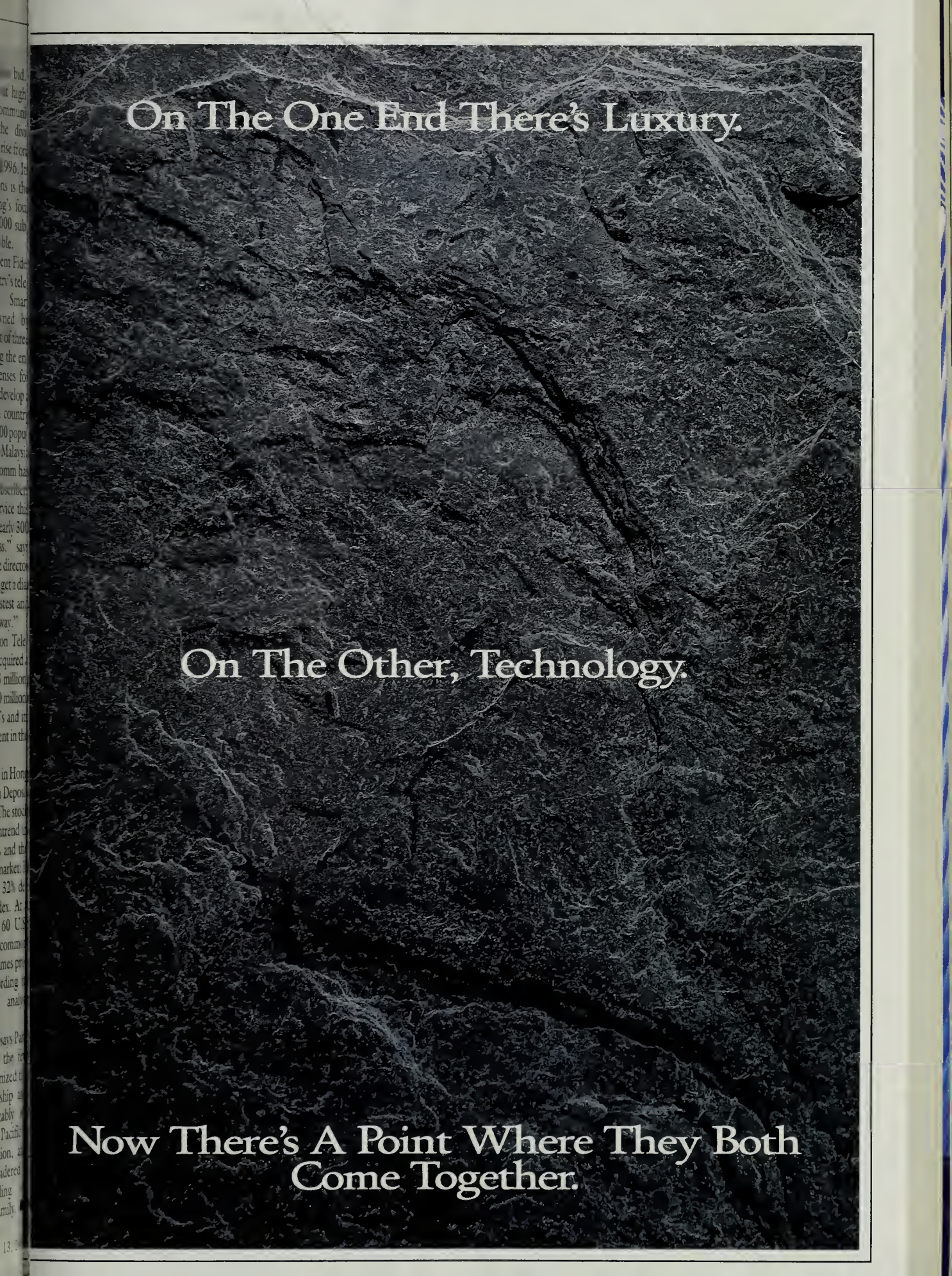
First Pacific's youngest but highest-growth business is telecommunications—Pangilinan says the division's share of profits should rise from 16% in 1993 to over 30% by 1996. It Pacific Link Communications is the third largest of Hong Kong's four cellular operators, with 82,000 subscribers, and is highly profitable.

In 1993 Philippine President Fidel Ramos deregulated his country's telecommunications industry. Smart Communications, 33% owned by First Pacific, received the first of three new cellular licenses covering the entire country, as well as licenses for paging services and rights to develop a wireline phone system. In a country with only 2 phone lines per 100 population (versus 14 per 100 in Malaysia and 40 in Taiwan), Smart Comm has signed up 38,000 cellular subscribers since launching full-scale service this past August, and is adding nearly 30 customers a day. "Wireless," says Thomas Yasuda, an executive director of First Pacific, "is the way to get a dial tone to the masses in the fastest and most cost-effective possible way."

In January Japan's Nippon Telegraph & Telephone Corp. acquired a 15% stake in Smart for \$123 million, valuing the company at \$820 million, nearly 20 times First Pacific's and its Philippine partner's investment in the company to date.

First Pacific stock is traded in Hong Kong and through American Depositary Receipts in New York. The stock has so far bucked the downtrend in the emerging Asian markets and the collapse of the Hong Kong market: It rose 34% last year against a 32% decline in the Hang Seng index. At its recent price of HK\$4.67 (60 U.S. cents) a share, First Pacific common was trading at under eight times projected 1995 earnings, according to S.G. Warburg Securities' analyst Kam-ming Wong.

"The Salims are unique," says Pangilinan. "They are one of the few Chinese groups that's recognized the distinction between ownership and management." And profitably so. Their 35% holding in First Pacific is currently worth \$400 million, and Manny Pangilinan is considered a member-in-very-good-standing of the extended Liem/Salim family. ■



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What A Luxury Car Should Be

Sam Walton flopped with his hypermarkets.
What does old Frederik Meijer know that Sam didn't?

Squeezing the tomatoes

By Zina Moukheiber

THE LATE Sam Walton was a genius, but he looked a bit dumb on hypermarkets, those enormous emporia combining groceries with discount general merchandise. Walton launched his Hypermart USA chain in 1987. Results were disappointing: Wal-Mart has opened only four hypermarkets, the last in 1990. Kmart also lost heavily with the concept.

Too bad Walton hadn't paid more attention to 75-year-old Frederik Meijer and his sons Douglas, 40, and Hank, 42, of Grand Rapids, Mich. Their Meijer, Inc.—number 18 on *FORBES'* list of the country's 500 largest privately owned companies (*FORBES*, Dec. 5, 1994)—operates 86 hypermarkets, all in the Midwest, ranging from 160,000 to 230,000 square feet—over five times bigger than the typical supermarket. Last year Meijer (pronounced MY-er) netted an estimated \$145 million after taxes, on sales of \$5 billion. That 3% net margin is almost identical to Wal-Mart's. It is 30% more than what even the best-run supermarket chains net.

How do the Meijers make money where Wal-Mart lost money? When he tried the hypermarket format in the late 1980s, Sam Walton simply grafted a grocery store onto a Wal-Mart store's general merchandise operation. It was like sewing a toe onto a hand. Wal-Mart had no experience in groceries, with the thin margins and spoilable inventories. The Hypermarkets, too, were on average 23% bigger than the typical Meijer's store and had much higher break-even points.

To put it bluntly, Walton got the whole thing backwards. He and his aides tended to think of the hypermarkets as Wal-Marts with a grocery

attached. The Meijers, by contrast, based their strategy on the proposition that food was the main draw, nonfood a nice bonus. The chain was founded in 1934 by Fred Meijer's father, Hendrik, as a supermarket; the Meijers didn't add general merchandise until 1961. By then they were already successful grocers who understood that the keys to supermarket success are volume and quality of produce: The higher the turnover, the fresher the produce. Anyone can stock baked beans and detergent: running a produce department is an art. As market researcher Christopher Ohlinger puts it: "A bad produce department will hurt store sales." Ohlinger reports Meijer stores routinely score highest in surveys he takes on quality and food presentation, when compared with nationwide grocery store chains and local supermarkets.

The Meijers are very private people and declined to talk to *FORBES*, but Douglas Tigert, a professor of retail marketing at Babson College, has studied Meijer's and Wal-Mart's hypermarket experiences. Says Tigert: "Meijer's perception was that the food retailing side drives business; at Wal-Mart, it was that the nonfood

side drives business. The typical shopper spends 75% of his [shopping] time in a primary [grocery] store; the ideal is to attract the primary shopper, and Meijer has more primary shoppers."

In the belief that crisp lettuce and flavorful tomatoes will draw shoppers to fishing poles and car batteries, Meijer's merchandisers go to great lengths to underprice their grocery competitors and beat their quality. With attractive produce at attractive prices, they need do no more than match Wal-Mart's and Kmart's prices on apparel, and lawn mowers.

Neither Wal-Mart nor Kmart is throwing in the towel on hypermarkets. Both are readying fresh strategies for the hybrid markets. At \$390 billion a year (retail), the grocery business is too big for these merchants to ignore. They are downsizing their hypermarkets from between 220,000 and 260,000 square feet to between 150,000 and 220,000, closer to the typical Meijer store, and have dubbed them "supercenters" to capitalize on the appeal of the supermarket.

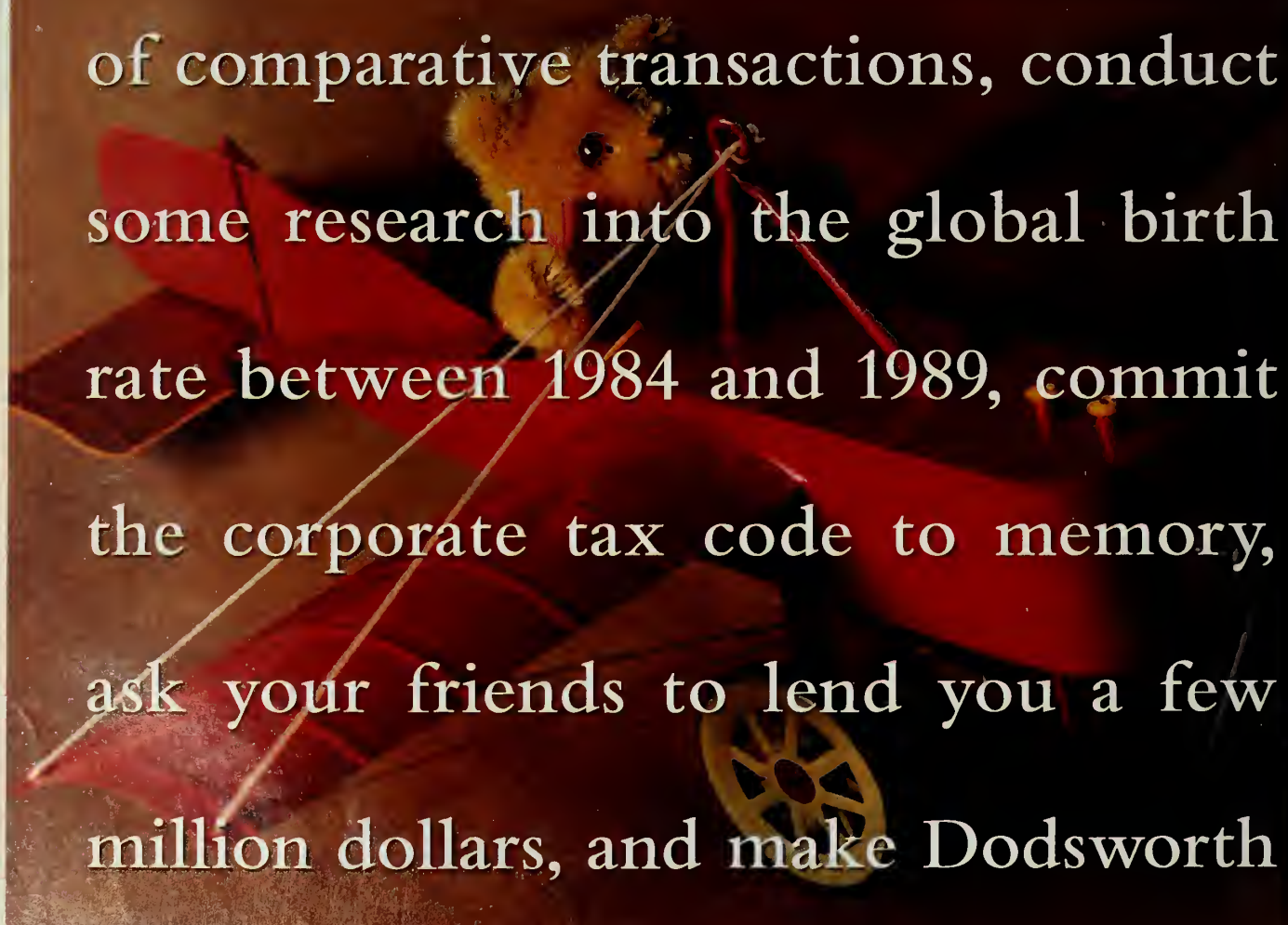
They have learned some hard lessons about the grocery business. Kmart, which had been working with an outside food retailer, now handles its own fresh produce, meat and bakery departments.

David Marsico, in charge of revamping Kmart's American Fare hypermarkets into a new line of Super Kmart Centers, confesses: "If you don't keep moving your perishable merchandise, it ruins your reputation." He adds: "I've studied Meijer for months. I've lived in their stores: They're really the premier operator." It goes to show that even geniuses sometimes stumble. How could a merchant as bright as Sam Walton forget that food is most people's most important purchase? ■



Hypermarket in Dearborn, Mich.

The Meijers had a leg up over Wal-Mart: They started out as grocers.



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Richard Bertoli is in prison,
but that hasn't stopped this master swindler.

Earn while you serve

By Graham Button

RICHARD BERTOLI, 62, makes his headquarters at Allenwood Federal Prison Camp, near Allenwood, Pa., where he's serving time for obstructing justice. But watch your wallet. A notorious stock swindler (*FORBES*, Oct. 1, 1990), Bertoli hasn't let imprisonment keep him from doing business.

Even putting him in prison was hard work. Federal prosecutors claimed Bertoli used Cayman Islands bank and brokerage accounts as part of a scheme to inflate the value of a number of publicly traded stocks. Bertoli beat the stock fraud rap, but in August 1993 he was convicted of obstructing justice—thwarting investigators by, among other things, spiriting \$8.7 million of illicit proceeds from the Cayman Islands to the European principality of Andorra.

So far the government has been able to recover only \$800,000 of the money. Bertoli claims a couple of former associates embezzled the money from the Andorran accounts, but nobody seems to believe that. *FORBES* has seen documents indicating the money is at work financing companies Bertoli allegedly controls.

The documents show that \$1.75 million of the missing money was lent to Network Data Systems Ltd., a holding company that trades over-the-counter in Canada. An additional \$1.1 million of the Andorran funds went to purchase shares of Nasdaq-listed Executive TeleCard Ltd.

It's hard to tell where one of

these companies stops and the other begins. Until recently they shared the same office address in Markham, Ont., as well as a common president, William Moore, who resigned in December from TeleCard but remains at Network Data Systems.

TeleCard is a real company. It has a calling-card service that enables travelers to save on calls made in and between foreign countries. Revenues in the six months ended Sept. 30 came to \$11 million, operating income to \$1 million. It has affiliations with several large companies, including MasterCard International and Singapore Telecom.

Where does Bertoli fit in? Network Data, with a 13% stake, is TeleCard's largest shareholder. Thread through a maze of interlocking entities, includ-

ing Gibraltar-based Foremost Partners, and control of Network Data appears to end at Allenwood.

Bertoli denies that he controls TeleCard, but dissident shareholders beg to differ. The group, which has been waging a proxy fight for control of the company, established that TeleCard's top officers made repeated visits to Allenwood to confer with Bertoli. The dissidents say Bertoli has been calling the shots at the company.

Does all this sound improbable? Truth is stranger than fiction. In a way, one has to admire Bertoli, because he is a master swindler. A few years back TeleCard was expanding a deal with MasterCard International. Among those representing TeleCard in the talks were Executive Vice President Robert Schuck and someone introduced as his brother Ernest. So who's Ernie Schuck? In real life he's a Bell County, Pennsylvania veteran who helped develop TeleCard's call-routing system in the late 1980s. Ernie Schuck dazzled the MasterCard officials with his knowledge of the business and his prospects. Only he wasn't Ernie Schuck. He was Dick Bertoli.

Eventually the MasterCard people caught on, but not before they had signed a worldwide agreement to use TeleCard's calling-card services.

We managed to interview Bertoli at Allenwood. Much of what he said amounted to doubletalk. "There are strange things that happen in this world, especially when you're dealing with offshore entities," quoth he.

What chance does the dissident group have of winning the proxy fight and replacing Bertoli at TeleCard? Probably slight. One former dissident, Walter Krauth Jr., is not standing for election to TeleCard's proposed board. But in our Allenwood interview Bertoli suggested that Krauth was once an ally. "He [Krauth] spoke to me the day before he went into prison, asking for advice," recalled Bertoli. "I wouldn't call it advice," retorts Krauth, who says "blew the whistle" on questionable dealings between Bertoli and TeleCard.

We repeat: Truth is sometimes stranger than fiction. ■



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What do you do when you're a shrinking David in a world of Goliaths? Alberto-Culver got a new slingshot.

When Lenny met Sally

By Amy Feldman

LEONARD LAVIN built a \$240 million fortune selling cheap shampoo. His Alberto VO5 hair-dressing was the gloppy predecessor to today's mousses and gels that make hair stay in place. Having acquired the brand when it was tiny, and built it up, he extended Alberto's popular brand name to shampoos, conditioners, hair sprays and hot-oil treatments.

But that was yesterday. Today Melrose Park, Ill.-based Alberto-Culver Co. must compete against deep-pocketed giants like Gillette and Procter & Gamble. Though Alberto-Culver still sells nearly \$300 million worth of Alberto VO5 products worldwide, profitability has dried up. Operating margins in Alberto-Culver's mass-marketed personal care business fell from 11% in 1987 to 2% in the fiscal year that ended Sept. 30. "No one makes a lot of money selling 99-cent shampoos," sighs Howard Bernick, Lavin's son-in-law, who recently took over as chief executive and runs the publicly held business with his wife, Carol Lavin Bernick.

Alberto-Culver remains essentially a family business, the Lavins and the Bernicks own 33% of the stock and 44% of the votes. Founder Len Lavin simply turned day-to-day operations over to his son-in-law and daughter. He remains chairman.



So this is just another sad story of a once sharp family business now in decline and headed for extinction? Not quite. Alberto-Culver is thriving. But not in its original business.

Today Alberto-Culver's fast-growing chain of 1,386 wholly owned beauty products stores, Sally Beauty Supply, brings in most of the profits. The chain accounted for 52% of Alberto-Culver's \$1.2 billion in fiscal 1994 revenues and 76% of the almost \$85 million in operating profits.

Len Lavin bought Sally back in 1969. Traveling in New Orleans, Lavin spotted a Sally store. At the time Sally was a chain of 12 stores in and around New Orleans, 11 of them

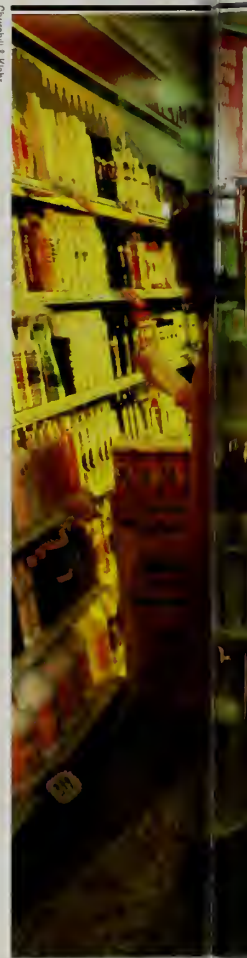
franchised, selling salon products to registered beauticians. Lavin saw Sally as an alternative distribution network through which Alberto-Culver could sell higher-margin products to the salon market. He figured that he could use the cash flow from Alberto-Culver's core hair-care business to finance expansion. Lavin spent \$1 million to acquire the little chain and buyout its 11 franchisees. Then he began expanding again with company-owned stores. The real growth, however, did not come until the mid-1970s.

Alberto-Culver's second-generation management, Howard and Carol Bernick

Leonard Lavin's daughter says:
"My dad throws a lot of things against the dartboard. . . . Some of them stick."

Sally Beauty Supply store
Alberto-Culver's surprising profit center, Sally is adding far more stores each year than the total size of its next largest competitor.

Churchill & Kiehl



Sally's small shops in strip malls sell a large variety of hair-care products—to walk-in customers at one price and to registered beauticians at a 20%-to-25% discount. The overwhelming portion of Sally store sales comes from those hairdressers.

Before cash-and-carry chains like Sally, most salons bought their products from traveling salesmen. That's how Revlon's Charles Revson and

Vidal Sassoon got their start. While certain expensive lines—Redken and Matrix, for example—continue to be sold that way, most other manufacturers have switched to large distributors. But there are at least 200,000 salons, most of them small-fry. So their business is marginal to distributors. The priority in filling orders has always gone to the top salon chains.

The Sally stores can offer the small salons both a wide choice of merchandise and immediate service along with the discounts. To the salons the Sally stores are what grocery clubs, like

Walmart's Sam's Club chain, are to all grocery stores—a place where they are the preferred customers.

Just as Wal-Mart demands special treatment from Alberto-Culver because of the huge volume of VO5 it buys, so can Michael Renzulli, who runs the Sally stores subsidiary, demand better terms from those who want to sell to salons through its stores. Manufacturers pay Sally fees of 3% to 7% for "extras" such as warehouse storage, special in-store displays and advertising allowances. "They've got tremendous clout,"

Is the business saturated? Alberto-Culver doesn't think so. Renzulli sees Sally operating 5,000 stores in the U.S. and abroad, comparing its global potential with that of McDonald's.

Meanwhile, the Bernicks are trying, so far with limited success, to revive the hair-care business. "We took the money from our toiletries business to buy and build Sally," says Lavin. "And as Sally gets bigger and bigger, we're taking Sally's profits to help us increase the size of the consumer products division."

Alberto-Culver has had a record of growing mainly through acquisition and expansion rather than internal development. Sally itself grew initially when Lavin acquired the largest company in the field. That company, Milo, went into bankruptcy after its founder was murdered by a hit man hired by his brother. Not all acquisitions have been successful. Lavin purchased Frye boots in 1977 at Bernick's suggestion, but the business foundered when he tried to extend the popular western-boot brand name to other kinds of shoes.

Besides Sally, Alberto-Culver has several strengths. One is financial. Its \$74 million in debt is 12% of total capital, and cash flow runs to \$65 million. That gives it ample funds for further acquisitions.

Its other strength is a worldwide marketing organization. In many foreign markets Alberto-Culver has positioned VO5 as a more expensive brand. The company is also hawking everything from bandages to deodorants abroad—a diversification that increased with the 1991 acquisition of Sweden's Cederroth International and will most likely increase further with additional acquisitions this year. If Lavin and the Bernicks can force more product through their existing distribution network, they will obviously increase overall profitability.

But selling consumer products to drugstores and supermarkets is an uphill fight against heavy odds. The competition is about as tough as competition gets. Efforts by Alberto-Culver to sell more expensive, higher-margin hair products at home have had little impact. The Bernicks and Alberto-Culver's shareholders can bless the day that Len Lavin happened to buy tiny Sally.

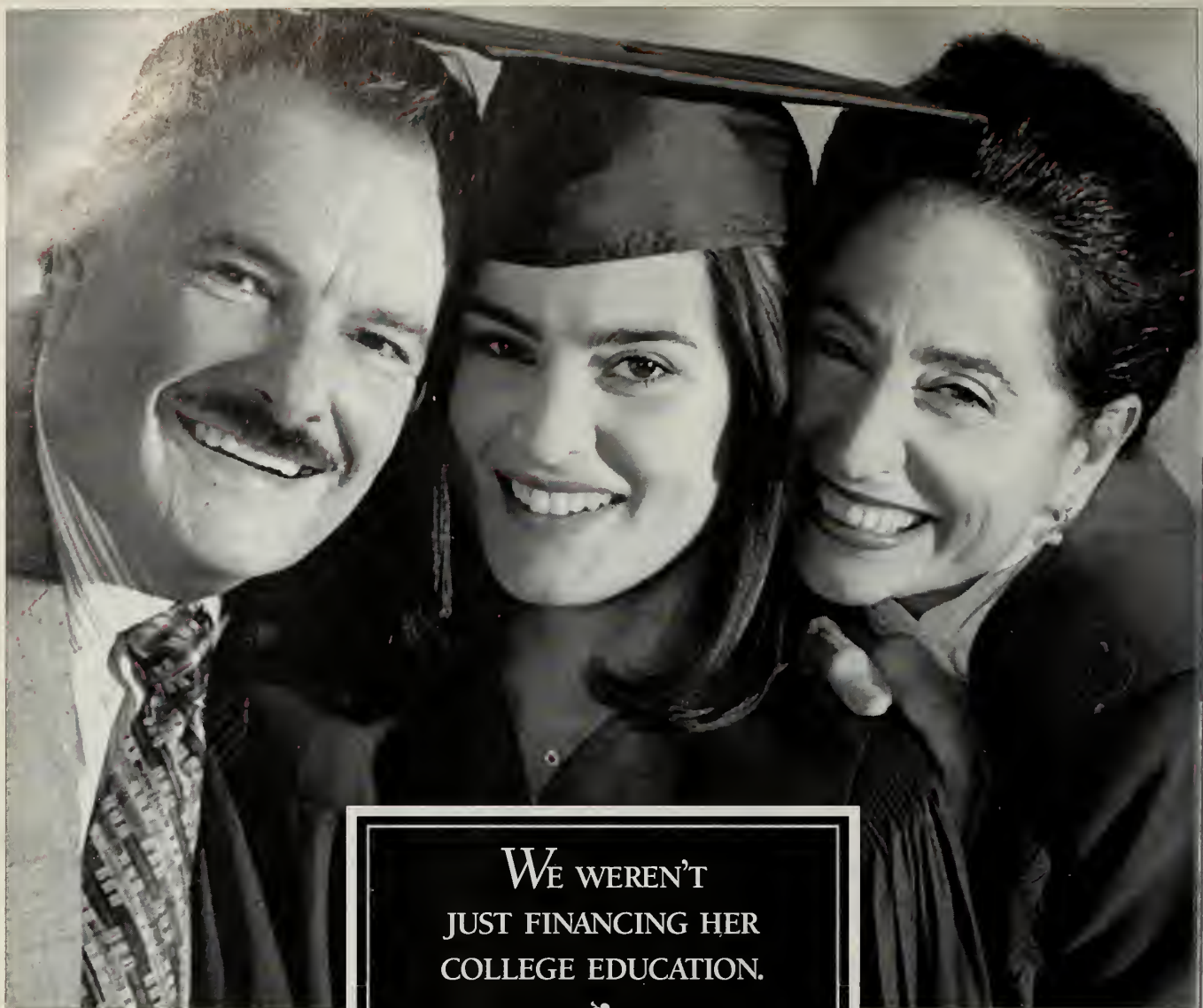


Wal-Mart's Sam's Club chain, are to all grocery stores—a place where they are the preferred customers.

Here's the key to Sally's success: because Sally supplies the big consumers of their products, and does so in volume, manufacturers like Clairol and L'Oréal sell products to Sally that they won't sell to drugstores and mass merchants. For example, Sally carries the full range of hair-coloring prod-

says Robert Oppenheim, former president of Clairol's professional products division.

As Wal-Mart revolutionized retail distribution, so has Sally revolutionized the beauty salon distribution business, with massive automated warehouses and computerized restocking. Sally does have competition, but it is puny. Its largest rival has fewer than 100 stores.



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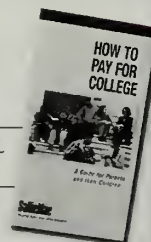
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On America's long march toward the welfare state, retention of public lands by the feds was the first milestone. Let's demolish that milestone.

Federal imperialism

BY ROBERT H. NELSON



Robert H. Nelson is a professor in the School of Public Affairs at the University of Maryland. His forthcoming book is *Public Lands and Private Rights: The Failure of Scientific Management*.

IS CONGRESS SERIOUS about devolving major federal responsibilities to the states? It can show it is by transferring the public lands to the states.

The federal government owns almost 30% of the U.S., most of it in the West. Nevada is 83% federal. Nevadans complain of being a federal colony. That's because the federal government makes decisions over this vast domain on matters that everywhere else would be state and local. Can pipelines be constructed, dams erected, ski resorts built? The feds decide.

Economist Randall O'Toole has commented that the assets of the U.S. Forest Service would rank it in the top five among corporations in the U.S., but in terms of net income, the agency "would be classified as bankrupt."

But it won't be enough just to give title to the states. If the western states were required to follow all the existing federal rules and procedures, the land might become a burden. To be workable, the transfer must be done with few strings attached. That's why I say this is a real test of how serious Congress is about devolution. Congress would really have to keep hands off.

The states could cut management costs and get revenue from these valuable properties. Or they could preserve them intact. The decision would be made locally.

Whatever the states decide, land management would improve. A 1994 study by Donald Leal of the Political Economy Research Center in Bozeman, Mont. shows why. It found that on adjacent forests in Montana, the state earned \$13.7 million on its own timber operations over a five-year period while the nearby federal timber programs cost taxpayers \$42 million.

In one region, state managers required 4.5 hours of labor per thousand board feet of timber sold. The Federal Forest Service took 11.6 hours to do the same thing. Did the savings achieved come at the expense

If Congress is serious about devolution, what better place to start than with federal lands.

of the environment? Absolutely not. The state lands received higher ratings for environmental protection.

A 1980s Interior Department study found that when all costs were accounted, livestock management by the Federal Bureau of Land Management was costing over \$100 million a year, while total grazing fee collections were less than \$25 million. Recreationists were even more heavily subsidized, paying less than \$1 million in user charges, while the Bureau of Land Management was spending more than \$100 million on their behalf. Would it

be so horrible to require backpackers to pay a few bucks for the scenery and solitude they so desire?

The federal government in 1992 did manage to collect \$865 million in royalties from its oil and gas, coal and other mineral leases. But most of the revenues were disbursed to state governments or to accounts other than the U.S. Treasury.

It wasn't always thus. In the 19th century the policy of the federal government was to dispose of the public lands in the interest of economic development to homesteaders, railroad builders and others. But around the turn of the century, there was a change of policy. Public lands became pawns to the new vision of scientific management of society. Conservationists such as Gifford Pinchot in 1905 argued that private management would inevitably waste the nation's timber and lead to a "timber famine." Only the federal government, Pinchot argued, could supply the scientific skills to use the forests and rangelands of the nation for the long run.

Progressivism was an American version of socialist planning, based on a dream of applying "science" to public policy. That dream has ended as badly here as those dreams have elsewhere, though luckily for us not on the same scale. Everywhere in the world today, privatization is on the march. Nations are dismantling the dismal 20th-century legacy of government property and resource ownership.

So, what is Congress waiting for? It can turn the public lands from a liability for taxpayers into an asset. Transfer them to the states, perhaps retaining at the federal level a few park and wilderness areas that for environmental or historical reasons are of genuine national distinction.

Devolution ownership would not necessarily result in state management. The states would have many options. They could continue to own the lands or further decentralize ownership to local governments. They could create public corporations to run them. Ownership could continue to vest in the state, but management could be contracted out to private parties. Many policy flowers would bloom, and we would find out which blossomed the best. What better place to start if we are serious about scaling back the welfare state?

Terry Lee wanted to run his own show. The experience was a bit more than he had reckoned on.

Mr. Lee, meet Mr. Murphy

By Zina Moukheiber

DON'T TALK to Terry Lee about Murphy's Law, about how sometimes everything that can go wrong will go wrong. Lee's been there.

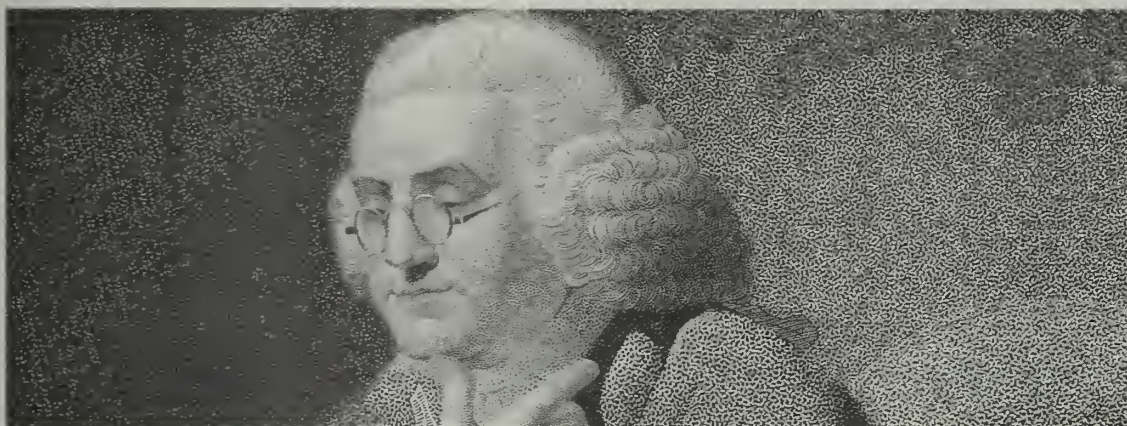
Lee, 45, was in charge of sales and distribution at Wilson Sporting Goods, then a division of PepsiCo, in 1983. That year opportunity knocked. A chance to run his own show and build some equity.

Phillip Matthews, his former boss at Wilson, had teamed with two partners to buy a company called Bell Sports Corp., the U.S.' biggest maker of motorcycle helmets. Would Terry



Terry Lee, chairman of Bell Sports
Bell turned into a nightmare; then came luck.

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Lee come over to help run the \$20 million (sales) outfit? Bell was barely profitable, but if Lee could get it rolling again he would even get equity. "I saw a great brand name and a potential to develop the business," Lee says.

Then Murphy's Law struck. The motorcycle boom screeched to an abrupt halt and with it the demand for helmets. Then Phil Matthews' partners wanted out, forcing Bell to go into debt to buy back their shares. The company was now 10% equity, 90% debt, with debt service swallowing every penny of cash flow.

Bell could no longer afford to produce new designs—the crux of its reputation—and quality slipped, with some helmets turning up with crooked nosepieces. It lost market share to the Japanese helmet maker Shoei, which wooed U.S. customers with better aerodynamic designs and venting technology, and at prices similar to Bell's.

Then Bell's spanking new Rantoul, Ill. administrative offices burned, and had to be rebuilt from scratch.

Fortunately, one break did come Bell's way, and it probably saved the company. While motorcycles were fading, bicycle riding suddenly became trendy. Bell also made bicyclists' helmets. Although these accounted for barely 10% of revenues in 1984, sales started growing 50% a year.

In 1991 Lee got out of motorcycle helmets, selling manufacturing and licensing rights to an Italian competitor called Bieffe. "We had to laser-focus on spending the scarce resources we had in the most effective way," says Lee.

In retrospect this was a brilliant decision. Although the motorcycle business did come back, there are a lot more bicyclists in the world than motorcyclists, and as yet very few of the bicyclists bothered with helmets. Redeploying assets, Lee took the \$15 million he got out of the motorcycle helmet business and used it to reduce debt. Now in better financial shape, Bell started pushing Little Bell Shell, its children's helmet, in parents' magazines. By 1992 Bell was making \$5 million in net profit on sales of \$64.5 million. Its models included the lightest-weight helmets on the market, which retailed for \$80, as well as hard-

shell helmets with colorful graphics that sold for \$29.

Lee keeps the customers coming with a steady stream of new designs. Last year he introduced 17 designs, including helmets fitted with an interior inflatable cushion and helmets with lights.

In 1992 Lee sold 52% of the company to the public in an initial public offering, using part of the proceeds to reduce Bell's debt to a very conservative 18% of capital.

But the trouble with running a



Reed Kahn

The trouble with running a successful niche business is that you inevitably attract competition. Bicycle helmets are easy to fabricate; all you need is plastic and foam.

successful niche business is that you inevitably attract competition. Bicycle helmets are easy to fabricate; all you need is plastic and foam. The year Bell went public, New Jersey started the trend for state laws requiring the use of bicycle helmets by young people. New competitors jumped in. American Recreation became the second-largest helmet maker, with Troxel Cycling and Giro Sport Designs also vying for market share.

Lee didn't just sit there. He'd already made two key moves: He had

broadened distribution and developed line extensions of his basic product line.

Bell had been selling only through bike shops. Supplying discount stores would offend his regular customers and squeeze margins. Never mind. He had to make a move. He already supplied helmets to Wal-Mart and Kmart, but under a different name, BSI. Now he made BSI available to any store that wanted to carry the line.

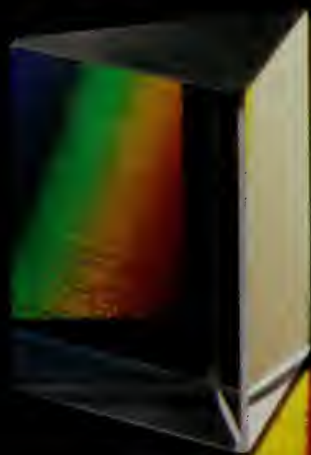
"Bell was the first to walk into the mass merchants," says John Steckler, a marketing executive at Pro-tec, a competitor. "It has done a great job at doing both [mass and high-end]." Today BSI helmets are 75% of Bell's unit sales of over 6 million.

More recently Bell has moved into Europe, where bicycle riding is more popular than in the U.S. but use of helmets is less widespread. Three years ago Bell opened a factory in France to supply the two biggest markets, the U.K. and Germany; foreign sales now contribute 15% of total sales, and are the fastest-growing segment.

Next? In 1986 Bell began acquiring small companies making bicycle accessories: bicycle pumps, child seats, red flashing safety lights and car racks. These now account for 25% of Bell's sales. "When the maturation stage does come for bicycle helmets, this will be a very diversified company," Lee says.

Last year Bell's net profit shot up nearly 50%, to \$10.5 million on \$116 million in revenues. This year won't be that good: Dealers' inventories are top-heavy, in part because fewer states than expected have joined the nine that already have mandatory helmet laws. As a result, analysts such as Goldman, Sachs' Edward Caso expect Bell's earnings to drop this year but recover next. His estimates are 50 cents a share this year, down from 1994's \$1.27, but rising to \$1.10 in 1996.

Shrewd Chicago investor Sam Zell, himself a motorcycle nut, is convinced Bell is onto a good thing. He recently bought just short of 10% of Bell's 8 million shares at around \$21 a share. And Terry Lee? What with dilution and the need to pay off debt, he ended up with just 3% of the stock, worth about \$3.6 million. He's done all right, but that brush with Murphy's Law cost him dearly.



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Opportunity is where you find it—a cliché, of course, but still an apt motto for 28-year-old Brett Prager's Collegiate Health Care.

Money-raising in the men's room

By Suzanne Oliver

AS A STUDENT in Columbia University's graduate business program in 1991, Brett Prager sprained an ankle and had to wait an hour for an examination at the student health center. As his ankle throbbed, he wondered: Might an outside vendor run a more efficient health facility?

Prager, now 28, turned the ques-

tion into a B-school project, sending a questionnaire to health center directors and deans of 200 colleges. Of 80 respondents, 28 said they'd be interested in hiring an outsider to manage their health centers. Prager did some quick extrapolating and figured he'd just stumbled on a \$2 billion market in student health services at 2,500

U.S. colleges.

Prager got a B on the project, but he wasn't finished. He wanted to see he could turn the idea into a real business. In late 1991 Stephen Wiggins, founder of Oxford Health Plan, the \$700 million (estimated 1991 sales) health maintenance organization, spoke to Prager's venture capital class. After class, Prager chased Wiggins down the hall and cornered him in the men's room, where he pitched his idea for Collegiate Health Care. Wiggins was impressed. "I figured he was aggressive enough to chase me into the bathroom, he might have what it takes to run a business," said Wiggins.

A few months later Prager sent his business plan to Wiggins and to New York City-based Chemical Venture Partners. The latter, along with Ventures Medical Associates, advanced Prager \$30,000 to attend an association meeting of college financial officers where Prager offered free doughnuts and a chance to win a color TV to anyone who completed his questionnaire. More leads and ideas, and name recognition for Collegiate Health.

After earning his M.B.A. in August 1992, Prager raised \$1.2 million seed money from Oxford Health and the two venture capital firms, and began marketing cut-rate clinic services to student health center directors. But he soon learned that deans—not health center directors—are the decisionmakers when it comes to hiring outside vendors. He also discovered that the deans were more interested in improving quality than reducing costs. Prager: "Costs close the deal, but never open the door."

Switching gears, Prager began marketing Collegiate as a company that could offer students more health services for the same money the colleges were already spending. A year ago signed his first customer: Sacred Heart University in Fairfield, Conn., with 5,600 students. Prager quickly adjusted the generous benefits package of the school's health director, eliminating seven weeks of vacation and added a part-time doctor. Through Oxford Health, Prager was able to offer Sacred Heart's student prescription drugs at reduced prices. Collegiate also provided access to 24-hour, nurse-staffed hotline to a



Collegiate Health Care Founder Brett Prager

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swer students' basic medical questions. "We are dealing with the worried well, who might be worried they're going to die from a rash on their genitals and just want to talk," says Prager. Another service is a 24-hour telephone medical library—recorded messages covering 350 subjects, from AIDS to pneumonia.

Since winning Sacred Heart, Collegiate has signed up five more small liberal arts schools in the Northeast, including Cedar Crest College in Allentown, Pa. and Alfred University in Alfred, N.Y. Total students covered: 16,500, whose institutions will pay Collegiate a total of \$1.7 million in the fiscal year ending in June.

Prager (whose stake in the firm has been diluted down to 23%) says the company is already cash-flow positive on operations. He just hired the former assistant director of the University of Maryland's health clinic to manage sales. His short-term goal: 15 more schools and \$10 million in revenues in fiscal 1996. Five years out, Prager predicts \$100 million in annual revenues and says he'll then take the company public. Eventually, Prager and Oxford Health's Wiggins would like to join forces at universities, opening up Collegiate-run student health centers to faculty and staff insured by Oxford.

Recalls Prager of the schools' initial reaction to his sales spiel: "They said I was a money-grubbing M.B.A. who knew nothing about college health services." Nobody says that now. ■



Health center at Cedar Crest College
"We are dealing with the worried well.
Often they just want to talk."

Most of Rural Metro's costs are high and fixed, yet its revenues are largely subject to the whim of its customers. Here's how Robert Manschot manages this potentially disastrous situation.

Making the customer pay

By Nina Munk

"MR. YAGER? This is Joel with Rural Metro. We spoke last month to set up a payment plan, but we haven't received your check this month. . . . Well, we can take care of that now."

Courteous, but determined, account collector Joel Wright soon convinces customer Yager to read the numbers off one of his checks and, using a computer program known as Express Chex, instantly cuts a check from Yager to Rural Metro. One delinquent account looked after, Wright moves to the next. "Mr. Andrews? This is Joel with Rural Metro. . . ."

Bringing in the cash is crucial to any small business, but to Rural Metro it is a matter of life and death. Rural Metro Corp. is the country's fourth-largest private-sector ambulance company. Based in Scottsdale, Ariz., it operates a fleet of 650 ambulances covering 80 communities in ten states; another division provides fire-fighting services in five states. In the current fiscal year (ending June 30), Rural Metro will probably earn \$7.3 million, or 93 cents a share, on revenues of \$164 million. Last year it netted \$4.7 million on \$104 million in revenues, split about 70/30 between ambulance and fire services.

Ambulance service is a tough product to make money on. True, demand is, as economists say, price-inelastic: Anyone who needs the service is unlikely to haggle over its cost. On the other hand, costs in the business are high and fixed: An ambulance costs \$70,000 to buy and around \$450,000 a year to operate. And revenues are variable: Once a customer



has used the service, there's not much the provider can do to make the customer pay the bill. Ambulance companies' average bill for emergency transports runs from \$250 to \$550 a patient, but the companies typically collect only 60% to 70% of their bills.

These harsh commercial realities nearly sank Rural Metro. The company was founded in 1948 by Louis Witzeman, then a 23-year-old newspaper reporter who watched his neighbor's house burn to the ground in Scottsdale. Witzeman spent \$900 to buy a fire truck, and sold fire protection by subscription to other homeowners, much as Ben Franklin did in Philadelphia two centuries ago.

Over the years Witzeman introduced his fire-fighting services to other Arizona communities and later added ambulance service.

In 1980 Witzeman, then 55, retired, selling 63% of Rural Metro to his employees for \$1 million, after taxes. The employee/owners soon began borrowing money and buying up ambulance companies in other states; sales jumped tenfold, to \$50 million, between fiscal 1984 and 1989. But the new owners ignored the imperatives of aggressively managing the accounts receivable, so that Rural Metro soon fell behind on bank debt payments and had no money to replace worn equipment.

To save their company, in late 1988 the employees brought in Robert Manschot as chief executive. A precise, Dutch-born consultant and a former manager for the ITT Sheraton and Inter-Continental hotel chains, Manschot cut back management staff and refinanced Rural's debt. He also installed a state-of-the-art IBM computer system that cut the time it took to send out bills to 3 days from 21 and helped bring in long overdue payments. By 1991 Rural Metro was back in the black.

Keeping up the pressure on potential deadbeats, in 1992 Manschot invested \$100,000 for software that automatically dials delinquent accounts, patching the call through to collectors only when a real person—not an answering machine—picks up the phone. The software allows each of the company's 18 collectors to contact 18 to 20 people an hour, up from 6 an hour three years ago. Rural Metro's bad debts dropped to 19.8% of total billings last year, from 26% in 1990. Operating margins rose to 9% from operating losses in 1990.

With Rural Metro's financial health restored, Manschot, now 51, is again buying up small ambulance operators—last year Rural Metro bought 11 ambulance companies and signed letters of intent to buy 2 others. To help finance the deals, Manschot sold 29% of Rural Metro for \$22 million in a July 1993 initial public offering. A secondary offering last May raised another \$19 million. Since the 1993 IPO, Rural's Nasdaq-traded shares have risen from 12½ to a recent 18¾.

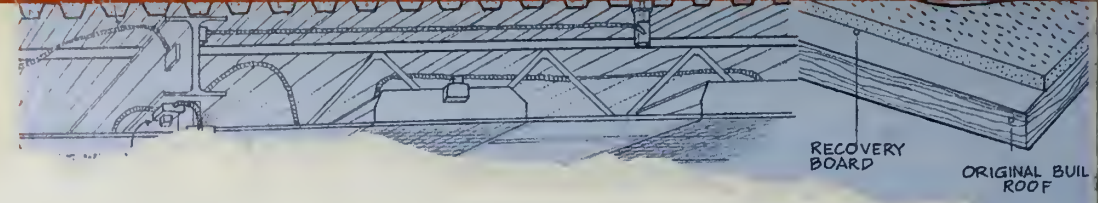
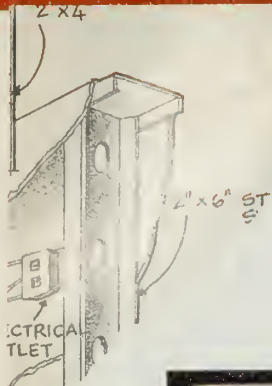
But Manschot is careful not to let the acquisitions detract him from close, hands-on management of practically every facet of Rural Metro's operations. He insists that his 15-odd senior managers receive a daily print-out detailing performance of the company's ambulance and fire business in each of Rural Metro's markets. He regularly commissions anonymous employee opinion surveys to track morale and personally checks up on each operation as often as three times a year.

"To succeed you have to micromanage," Manschot avers. "No detail is too small." He's talking about Rural Metro, but the principle applies to nearly all up-and-coming businesses.

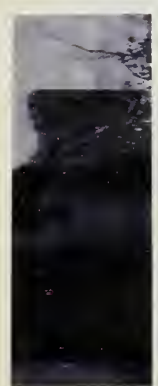


Rural Metro Chief Executive Bob Manschot wields an ax in Scottsdale

Success in the ambulance business is as much about cutting costs and collecting payments as it is about saving lives.



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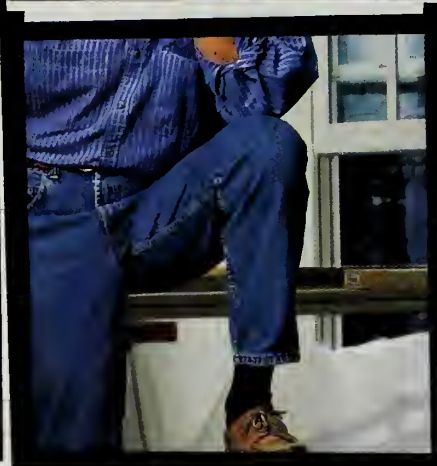
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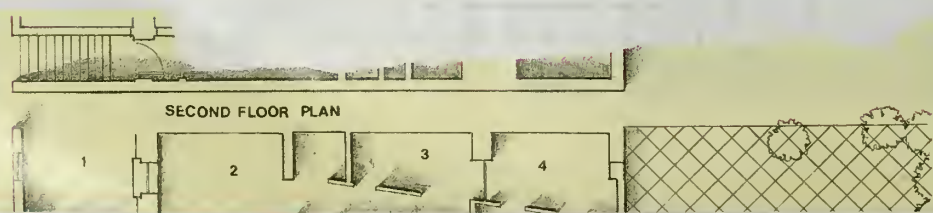
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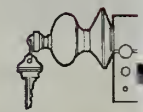
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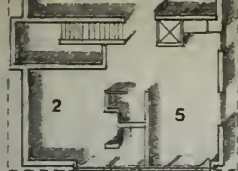
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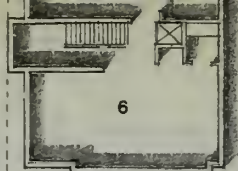
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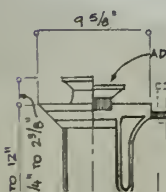
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Latest wrinkle in retailing: super pet stores that offer everything from feed to medical care—and encourage the ultimate consumers to come along with their masters.

Pooper-scooper dooper

By Christie Brown

YOU CAN HEAR the Petstuff store in Dale City, Va. long before you see it. A dozen dogs, barking, sniffing and snarling at each other, scramble in and out of cars. More animals, up for adoption from a local shelter, vie for attention from cages at the doorway.

Inside the cavernous 20,000-square-foot space, wild swallows skim the ceiling and 40-pound bags of pet

food are stacked 25 feet high. Dogs and owners prowl aisles that are filled with everything a piranha, iguana or mastiff could desire. Doggy dental floss bones, purple aquarium gravel, hamster starter kits and bins of squeaky toys and dried pigs' ears.

Petstuff, based in Roswell, Ga., has 61 superstores situated on the eastern seaboard and in Toronto. Its stores

offer staples at 10% to 30% off those prices prevailing at supermarkets, and, with 10,000 items in stock, lots of temptation for owners to do a bit of impulse shopping. To stimulate those impulses, shoppers are encouraged to bring their pets with them.

Americans spent \$17 billion on food, supplies and care for their pets in 1993. More than twice as many households have a pet as have a child under the age of 18—perhaps because pets seldom talk back and don't require an expensive college education. With a market this big it's no surprise superstores are growing. Two years ago there were about 250 of these superstores in the U.S.; now there are some 650, with another 500 or more scheduled to open by 1997.

Their big volume enables them to engage in heavy promotion. Last year PetsMart teamed up with the Discovery Channel. PetsMart buys advertising time. Discovery sets up in-store

Molly, a satisfied shopper

From 250 superstores

two years ago to 650 now.



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**Financial World*, "The State of States" ranking, May 12, 1992; May 15, 1993.



Petstuf store in Virginia

A day out for kids and pets.

Employees have pooper-scooper duty cleaning up after Fido and Fifi.

boutiques selling videos and posters.

Petstuf has the same warehouse concept as PetsMart and is in some of the same markets. Price wars have erupted as the two duke it out. For example, when told that PetsMart prices a bag of Science Diet \$4 lower, Petstuf promptly offered to beat it.

Pet Food Warehouse has stayed out of this fight by sticking to regional markets in the Midwest, not yet targeted by others.

"If you copy PetsMart you get eaten," says Petco President Brian Devine, an 18-year veteran with Toys "R" Us who joined Petco in 1990. To differentiate Petco, Devine dropped mass-brand pet food and sells only high-margin pet supplies and premium-brand foods, which are growing at 25% compounded annually. Some of Petco's prices are slightly above PetsMart's but still well below full retail. Petco has also kept its stores comparatively small—12,000 square feet on average—so they can be closer to cities than their competition.

How can these stores undersell supermarkets? Simple. They can sell both premium and mass brands at below cost as loss leaders. They more than recoup with pet toys and supplies that have margins of 50% and up. (In contrast, mass brands have about an 8% profit margin, and premium brands about 20%.)

Kim Rogers wheels her grocery cart through the checkout counter at the Dale City Petstuf, Amber, her golden retriever puppy, perched in the kiddy

seat, dog food piled in the back. Husband Ron trails with an enormous new pet carrier. Total cost of Amber's goodies: \$120. "There's so much to choose from," smiles Kim, "and it's so neat they let pets come."

All of this is bad news for supermarkets, which have long had the lion's share of this business. The grocery stores' pet food sales have dropped from 95% a decade ago to 55%. It is bad news, too, for veterinarians, who have made nice side change selling premium pet foods, like Hill's Science Diet and Iams. Some superstores also offer in-house grooming, obedience training and vet clinics. At some of them shoppers can adopt animals placed there by local animal shelters.

Traditional veterinarians are in a furor over the in-house vet clinics. "This is exploding like a bomb," says Karyn Gavzer, marketing director of the American Veterinary Medical Association. "Those who choose to stay in traditional practices are going to have to reposition themselves."

Deborah Watkins might agree. She recently took her poodle, Champagne, to get a complete checkup and shots at the Dale City Petstuf's clinic for \$50. "It cost much more at my old vet," says Watkins.

There are 16,000 animal hospitals in the U.S. and some 55,000 vets. Vets and animal hospitals are consolidating in part because of pressure from the superstores. Veterinary Centers of America, based in Santa Monica, Calif., is the brainchild of Neil Tauber and brothers Robert and Arthur Antin, who built two outpatient surgery companies in the 1980s. "Pet care has a lot of the same characteristics human health care did 15 years ago," says Bob Antin.

Since 1986 the team has bought up 35 veterinary hospitals and four animal laboratories, which service 4,000 independent hospitals around the country. To their benefit, there is no government interference in the veterinary world.

"At first everyone thought we were the devil, the Antichrist, pencil pushers who were going to make them operate naked to cut costs," recalls Antin. "We're almost the good guys now it's the superstore clinics who are the biggest villains," adds VCA financial officer Tomas Fuller.

In 1993 VCA began a joint venture with H.J. Heinz, which owns 24% of all VCA stock, to make and sell premi

How the pet players stack up

Company	Number of stores or hospitals	1994 Est.		Recent price	1995 P/E
		revenue (\$mil)	net income (\$mil)		
Pet Food Warehouse	21	\$35.8	-\$2.2	3 1/8	NM
Petco	219	188.0	4.4	17 3/4	15.7
PetsMart	180	594.0	13.5	34	37.2
Petstuf	61	77.0	-10.3	9	26.4
Veterinary Centers of America	35	42.0	0.6	8 1/4	15.0

NM: Not meaningful. Sources: Analyst reports from Needham & Co., Dabney Resnick, and Dain Bosworth.

The vet hospitals are now consolidating, partly because of pressure from the superstores.

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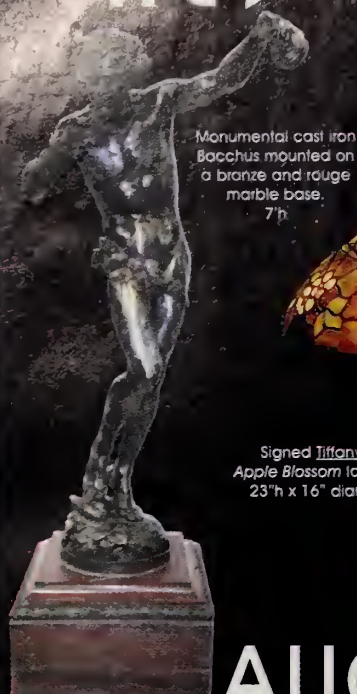
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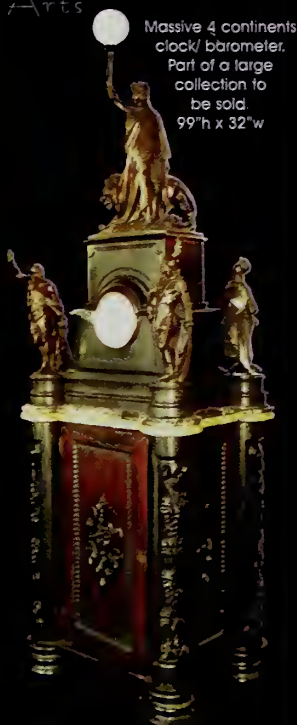
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Pet superstores

um pet foods. Select Balance, the new brand, has been marketed through VCA's hospitals, pet food stores and internationally. VCA came up with a clever marketing strategy to increase promotion. For no fee, it offers management consulting to independent hospitals, which in return stock Select Balance. So far, almost 900 hospitals have taken it up on the offer.

The Pet Practice is another entry in the veterinary sweepstakes. Expected to go public this spring, it is owned by King of Prussia, Pa.-based Foster Management, which had a string of human health care companies to its name, including Foster Medical. Started in 1993, the Pet Practice has acquired 49 animal hospitals. Unlike VCA's hospitals, the hospitals belong

**"Everyone's concerned
about the first lawsuit, when
Muffy bites a customer."**

ing to the Pet Practice all carry the corporate name and are clustered in regions like Detroit and Chicago. "We want to provide continuous care and build a brand name," says President Peter Cohen.

Established pet food providers have gotten the message and are rushing to get bigger. Hartz Mountain recently sold off nonpet divisions, bought controlling stake in one pet supply company and is negotiating to acquire two more. Nestlé just bought Alpo for \$510 million from Grand Metropolitan Plc.'s Pillsbury. With its Friskies and Mighty Dog brands, Nestlé is tied as the world's largest pet food manufacturer, along with Ralston Purina. Clearly the suppliers feel that they need plenty of heft to counter the heat of the new diversified retailers.

Of course, running a super pet store isn't all fun and games. What with so many animals roaming the aisles, employees are expected to do pooper scooper duty. It wouldn't do to have customers putting their feet in it. Then there is the worry about lawyers. "Everyone's concerned about the first lawsuit, when Muffy bites a customer," says Geri Mitchell, spokesman for the Pet Industry Joint Advisory Council in Washington, D.C. ■

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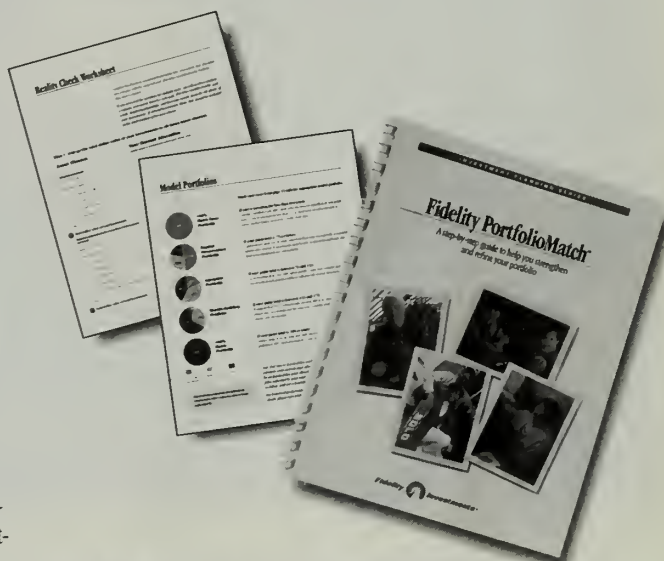
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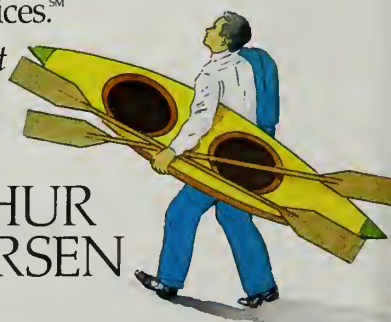
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Policy is not made fair or unfair by improving one man's prospects or diminishing another's.

The sins of the grandfathers

BY STEVEN E. LANDSBURG



Steven E. Landsburg is associate professor of economics at the University of Rochester and author of *The Armchair Economist*.

REASSESSMENT increased my property taxes 40%. My neighbor escaped unscathed. This inspired me to make some ill-considered remarks on the unfairness of it all. "You're right," agreed my neighbor. "It is unfair. Apparently you've been underpaying your share for the past 15 years. You ought to make amends with a big donation to the town treasury."

He had me there. There is nothing intrinsically fair about the status quo, and nothing intrinsically unfair about change.

In public affairs, there are two great sources of inertia. The first is well recognized: Interest groups coalesce around existing bureaucracies and become difficult to dislodge. The second is more insidious: Rhetoric about fairness tends (quite mistakenly) to "grandfather in" special privileges like my low assessment.

That grandfathering effect was prominent in the battles over GATT and Nafta. The party line among economically literate liberals goes something like this: "The gains from free trade are too good to pass up, but at least the winners ought to share their good fortune with the losers." Thus,

following the passage of Nafta, Michael Kinsley wrote in the *New Republic* that "when a \$16-an-hour American loses his job to a \$3-an-hour Mexican," fairness and political prudence dictate that he be compensated for his loss.

Maybe Kinsley was right regarding political prudence, but fairness seems to dictate just the opposite. Here we have an American who has for years charged the rest of us \$16 for something we ought to have been able to buy for \$3. Fairness dictates that he and others who have benefited from protectionism compensate the majority of their countrymen—many of

**Protectionism
allows privileged
groups to exploit
the consumer.**

whom earn substantially less than \$16 an hour—who have borne the burden. Motivated by the passion for fairness that I share with Michael Kinsley, I have a policy recommendation to offer. I propose that every American who loses his job as a result of Nafta should have a portion of his assets confiscated by the U.S. Treasury. The proceeds can be used to fund a general tax cut.

Protectionism allows the \$16-an-hour worker to exploit the consumer via an arrangement that is perfectly legal but entirely unfair. It is therefore odious in the same way that legalized slavery is odious, though of course not to the same extent. When slavery is abolished, what does fairness dictate? The logic of Kinsley's proposal would have us compensate the ex-

slaveowners, while the logic of my counterproposal would have us compensate the ex-slaves.

What I am advocating is a sort of zero-based budgeting in the rhetoric of fairness. A policy is not made fair or unfair by improving one man's prospects or diminishing another's; it is made fair or unfair by its conformity to some absolute moral standard. We may disagree about what is the right moral standard, but that disagreement will be a lot more enlightening than "I have a right to my agricultural subsidy because it's been there for as long as I remember."

I hope that this year's debate about the tax code will be held at that higher level. In 1990 Newt Gingrich told us that he preferred the old rates to the new ones, and in 1993 he told us the same thing again. Unless he has changed his mind, he should demand a rollback to the pre-Bush/Clinton tax schedule. The status quo has changed, but the absolute standard of right and wrong is presumably no different from what it was four years ago.

The rollback should of course be retroactive to 1990—just as my property tax increase should have been made retroactive. I'll go further: If Bill Clinton really believes that the rich underpaid all through the 1980s, he should have made his tax hike retroactive to 1979.

Unfortunately, a purely intellectual case against grandfathering cannot overcome the political power of entrenched bureaucracies. That requires more creative measures. Consider the problem of scaling back the executive branch of government. Departments like Agriculture, Commerce and Labor have powerful constituencies that make it unthinkable to eliminate them one at a time. But how about eliminating them as a package?

Agriculture helps farmers steal from workers and businesses; Commerce helps businesses steal from farmers and workers; and Labor helps workers steal from farmers and businesses. With a plan to abolish all three, you could promise every American that he was losing one friend and two enemies. Who knows? This may be enough to make people forget about their grandfathers. ■

THE LATIN AMERICAN MARKET



INVESTMENT

TRADE OPPORTUNITIES

FINANCE

BY LYNN B. MORRISSEY

Looking back five years ago, no one could have predicted the magnitude of change that has since swept through Latin America. Steered by reform-minded leaders, Latin American countries have privatized companies, mastered inflation and slashed government spending. They have given new freedom to capital flows and eliminated the regulations that once thwarted cross-border investment.



GREGORY MARTIN / SUPERSTOCK

Steered by reform-minded leaders, Latin American countries have privatized companies, mastered inflation and slashed government spending.

Latin America's new economic resilience, which has carried it through a recent period of growth, also appears strong enough to carry it through economic uncertainty as well. The Mexican government recently jolted investors with its sudden devaluation of the peso – a move that, just a decade ago, might have marked the beginning of a long period of international isolation. Instead, the government launched an emergency plan bolstered by an \$18 billion loan from the developed nations, and pointed to its otherwise firm economic foundations as evidence that it is in better shape now than during any previous devaluation.

Other countries in the region quickly reacted to the Mexican crisis to reassure investors that their economies were on track – yet another hallmark of the new era. The government of Argentina, for one, cut expenditures to balance its 1995 budget, and officials have taken pains to explain their country's economic realities to investors. In Brazil, the newly inaugurated administration took immediate steps to show investors that it was working hard to press on with its six-month-old economic stabilization plan.

On the whole, recovery has been big throughout the region, and has enhanced each country's ability to sell products and compete for capital and investment. Each year has brought a cascade of new growth. Annual inflation – once at record heights – has fallen to single digits in some countries. Attitudes, too, have evolved along with statistics. Not only has the controversy that nearly scuttled NAFTA abated, but at December's Summit of the Americas, the U.S., Canada and Mexico broadened the exclusive pact by inviting Chile to join.

"We find ourselves in a dramatically changed setting in Latin America, one of breathtaking opportunities," says Everett Briggs, president of the Council of the Americas, a business organization that promotes free trade and investment in the hemisphere.

"I work in finance."

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But money can't buy the feeling I get working with these kids."

Carmen Rolón

CARMEN ROLÓN
REGIONAL MANAGER, ITT ISLAND FINANCE
SAN JUAN

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With the path toward reform lined with so many successes against comparatively few setbacks, many wonder what is next for the region. Will Latin American countries in 1995 make further gains toward the twin goals that first set them on their reformist paths: sustainable growth rates and manageable inflation?

The job is by no means done. Public policy and private initiative are primed to sustain that growth through a progressive deepening of reforms. This next phase targets modernization of the energy and transport sectors, further deregulation of business, more productive foreign investment, and political and judicial reforms.

Although an end to hyperinflation was a great relief to the poor, austerity and privatization have also meant unemployment. Aware that failure to deliver social programs will fall hard on their governments, many leaders are developing programs to create jobs and extend education, housing, health services and infrastructure to the countryside. In his inaugural speech, Mexico's new president, Ernesto Zedillo, promised a resolute war on poverty.

For a number of countries, 1995 will be a revealing year. Will Brazil's *Real* plan, which has cut inflation to a fraction of its previous monthly levels

of 50%, be the definitive mechanism to stabilize and liberalize the economy? Will Venezuela, whose leaders have revived 1970s-style exchange and price controls, return to the free-market fold? Will Mexico's rescue plan mitigate the crisis sparked by the peso's devaluation at the end of 1994? And will enough be done for social welfare to keep voters delivering the mandate to today's reform-minded leaders?

Guiding these economies in 1995 through prosperity and pitfalls is an unprecedented crop of leaders whose views on modernization, fiscal sensibility and open economies are virtually homogeneous. In 1994, voters in Brazil elected a new president on the merits of an existing program, not promises. This year, incumbents in Argentina and Peru running for re-election under amended constitutions will be judged on the worthiness of their policies – policies that brought economic transformation to both countries.

In this time of unfolding opportunity, be it for direct investment, trade, project finance or portfolio investment, the question becomes not whether to go to Latin America, but where and how.

At a three-day conference in February in Miami Beach, top executives will gather to offer what they consider to be the best strategies for structuring investments in Latin America. Presented by Council of the Americas and FORBES Inc., "The Latin American Market: Investment, Finance and Trade Opportunities" will assemble a broad spectrum of advisers, policymakers and investors to explore how best to integrate the interests of investors with those of the host country in what is quickly emerging as a trillion-dollar hemispheric market.

Investing in a Changing Market: Opportunities and Risks

Commercial bank lending to Latin America, so widespread in the 1980s, has been supplanted by portfolio and foreign direct investment, turning the region into a big market for investors. Between 1990 and 1993, about \$170 billion in net capital flowed into the region – the bulk of this headed for securities in the companies of Latin America, which has significantly lifted restrictions on foreign investment in its

"Tourism will be as integral to the future of Latin America as trade, and compa-

nies that focus on the inbound and outbound opportunities to, from and within the region are apt to benefit the most. ITT Sheraton was the first international hotel company to have a demonstrative presence in Latin America, establishing our first property there more than 30 years ago. We maintain a significant lead today, recognized as No. 1 by industry organizations and by our customers. To fortify and extend our leadership, we are investing more than \$200 million in renovating, repositioning and developing properties in Latin America over the next two years. Already under way is more than \$50 million to expand the Sheraton Buenos Aires Hotel & Towers and nearly \$40 million to renovate and expand the San Cristobel Hotel & Towers in Santiago, Chile."

Daniel P. Weadock
President and Chief Operating Officer
ITT Sheraton Corporation



Top executives will meet in February in Miami to offer what they consider the best strategies for structuring investment in Latin America.

capital markets.

The development of a market for these securities and for sovereign debt gives not only direct access to capital but also provides liquidity to Latin American owners of those securities.

"What Latin America is going to benefit from is having significant investment of both kinds, and I think it would be shortsighted to emphasize one entirely at the expense of the other," says Geoffrey Kenyon, a partner in the law firm of Goodwin Procter & Hoar.

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opening up in the Western Hemisphere. With the revolutionary market reforms plus agreements such as GATT, NAFTA, Mercosur and others, the political and economic changes in Latin America have positioned the countries in the region for high, real investment growth.

"The challenge ahead is to continue and accelerate the policies that will sustain growth: freer trade and investment, increased internal savings rates, stepped-up privatization and infrastructure investment.

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Brian O'Neill
Senior Vice President
The Chase Manhattan Bank, N.A.

For portfolio investments, Kenyon expects to see a further loosening of restrictions, and eventually, the availability of sophisticated financial products of the type used in the U.S.

"As Latin America emerges as a prime market for foreign investment, direct investment into productive enterprises – which brings with it a transfer of technology and managerial expertise – has become vital for the countries and the companies concerned," says Michael Curtin, a manag-

ing director of Darby Overseas Investments, Ltd.

Along with its reputation as a hot new market for portfolio investment, Latin America still carries a "high risk" label. In 1994, a rise in U.S. interest rates, political turmoil in Mexico and Venezuela, and the stunning peso devaluation, sent shivers through the stock and bond markets, interrupting cash flows.

"Some of the people who are new to investing in the area have learned that the markets still have the capacity for being volatile," says Kenyon.

Over time, says Curtin, as the capital markets mature under sound economic policies, the need for political and exchange risk mitigation mechanisms will decrease.

To portfolio investors in Brazil, a leading financial adviser sounds a note of caution. "For risk-taking investors, private equity investments through managed portfolio funds seem to be the name of the new game," says Hans J. Apostel, founding partner of Apostel & Co. Investimentos Corporativos e Assessoria Ltda. Along with his partner Gunnar Vikberg, Apostel helps guide corporate investors on strategic and financial issues in Brazil. "However, caution is requested. The game becomes increasingly competitive, and outstanding returns have become a privilege of the very few who risked their own capital intelligently in the early '90s."

Making the Cross-Border Entry

Even with the transformation of the last years, Latin American markets – as with any emerging nations – are laden with challenges for investors. Of all the advice Jose Aldrich of KPMG Peat Marwick gives to companies planning to enter Latin America, the first sounds deceptively obvious, but can be overlooked by investors who view the region as offering uniform opportunities.

"The first rule is to get a regional business plan where the objectives are clearly defined," says Aldrich, a partner in charge of the firm's Latin America Center. A successful plan implies a flexible strategy to accommodate any changes over the course of the venture. One consideration might be to take advantage of intraregional trade pacts, such as Mercosur, which involves



Buenos Aires, Argentina

Brazil, Argentina, Uruguay and Paraguay.

Care must be taken to choose a country where investment and regulatory issues are the best match for the type of investment. Selecting the right form of entry is crucial; among newcomers, franchises are gaining popularity because of the relatively easy entry and small capital commitment, says Aldrich.

KPMG Peat Marwick advises those wishing to do business in Latin America to ask these simple questions:

- What opportunities – or threats – do current and proposed changes in Latin America create for us, and how should we respond?
- Which Latin American markets and sectors offer us the best returns, and how do we develop them?
- What resources are necessary for successful Latin American expansion, and how will this affect the way we operate?
- Should we reorganize our existing Latin America operations?

Strategic investors are entering the region in a variety of forms and markets. In Brazil, for example, more than 60 new franchises have entered the market in the last two years, and a similar number is expected in 1995. More than 200 cross-border joint ventures were concluded last year, a quarter with equity participation.

"U.S. technology, from hamburgers to software, from shopping malls to information highways, will look for distribution channels, local financing and marketing skills," says Apostel. "But the new trade and technology-driven international business partnership will only be successful with a wel-

"We don't shy away from difficult markets." When you have a relationship with UBS, nothing gets in the way of service. So when a customer asked us to provide financing for a \$45 million Peruvian gold mining project, we didn't hesitate. Through our local efforts, as well as our experience with borrowing base structures and political risk insurance, we facilitated Peru's first project financing of the decade. Now the mine has increased gold production in Peru by more than 50%. Performances like this are nothing new at UBS. We've participated in more than 140 project financings in over 25 countries. In this case, UBS was selected because of our expertise in mining project financing, and our reputation in providing a broad range of solutions to sourcing capital on a global scale. Next time you need a partner not afraid of taking on tough challenges, you'll find UBS a strong ally.



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defined long-term strategy and the willingness to invest systematically in new business partners."

Project Finance

While project finance covers a host of very large projects, infrastructure, because of the huge needs and the massive dollars associated with it, has moved into the spotlight. Without modern roads, power complexes and transportation systems, no country can hope to compete globally. But the risks of construction and the vast sums required – estimated in the hundreds of billions of dollars through the end of the century – have kept project finance from reaching its full potential.

To James M. Brittain, director of structured finance at Deutsche Bank, the last five years have marked a transition period where project financiers are "trying to push the edge of the envelope in terms of what is possible. What is being contemplated today would have been viewed as impossible 12 to 18 months ago. What we will probably be doing in a year or 18 months from now would, hopefully, be unthinkable today," says Brittain.

With potential in every sector from telecommunications to power, mining, oil and gas, the real question becomes not which projects are viable for investment, but where the money is going to come from. "The best projects," says Brittain, "are the ones that are going to get done: the ones that are most important, and of highest priority to the countries; the ones where sponsors – local and foreign as well as countries – are prepared to meet halfway and recognize the realities of what the financial markets are, and come to successful arrangements."

The interest in the region has been enormous, says Donald B. Kyle, managing director at the Union Bank of Switzerland, who is approached by developers, construction companies, utilities, fuel and equipment suppliers and in some cases, financial investment funds. The pace for project financing can be frustratingly slow, since structuring contracts and assembling the financing can mean years until the deal is closed.

Kyle believes that the pace will quicken in the coming years. One reason is the emergence in the last three



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"C

hanges
that have
occurred
in our in-
dustry will
also have

an impact on other countries in Latin America, and, who knows, maybe in the world. New opportunities are arising, and Argentine companies are meeting them. They are beginning to explore in neighboring and foreign countries, beginning to invest in production contracts and beginning to consider opportunities in marketing and refining efforts outside Argentina. This is a consequence of the responsibility acquired in the transformation process of the country and of the industry."

Jose A. Estenssoro
President and CEO
YPF

years of the 144A Eurobond market, which was a breakthrough because it provided a new source of capital via institutional investors for project finance.

"I think capital is going to be made available to these countries but it is going to come in judiciously," says Kyle. "The initial countries and projects that will get financed are going to be those that have very strong funda-

mentals, with political stability and a legal framework behind them."

Among noninfrastructure projects, the easier ones to close are tied to exports, particularly those from mining ventures. "But a green-field toll-road project, which carries construction risk, which clearly has no export element, which has market risk and U.S. dollar debt financing and customers dropping local currency into the machines – those are the more difficult ones," says Kyle.

Still, a number of major projects worth \$500 million and more are under consideration in a variety of countries, and these projects are expected to dwarf the \$50 to \$75 million projects typical of recent years. As a result, Kyle views 1995 as a "watershed year for project finance" in Latin America.

The Critical Link: International Financial Institutions

With competition for infrastructure financing resources so intense around the world that some analysts refer to it as a "global war," it is not surprising that finding the right financing for even the most secure venture can be an obstacle. Furthermore, true infrastructure is dedicated to a public need within the country and by its nature generates local currency – creating the quandary of repaying foreign lenders in hard currency.

"The private lending market is limited and very conservative right now, and it looks for other forms of assurance before lending for infrastructure," says Gilbert D. Porter, partner and head of project finance at the New York office of the law firm King & Spalding. Nevertheless, adds Porter, Latin America's economic turnaround has given it a strong, credible case for infrastructure development.

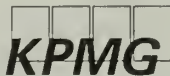
To confer security, many companies want to be allied, often as a co-lender, with one or more U.S. and multilateral agencies. These include in particular the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), the U.S. Trade and Development Agency, and the International Finance Corporation (IFC). Countries traditionally have been loath to default against these agencies, and the affiliation brings with

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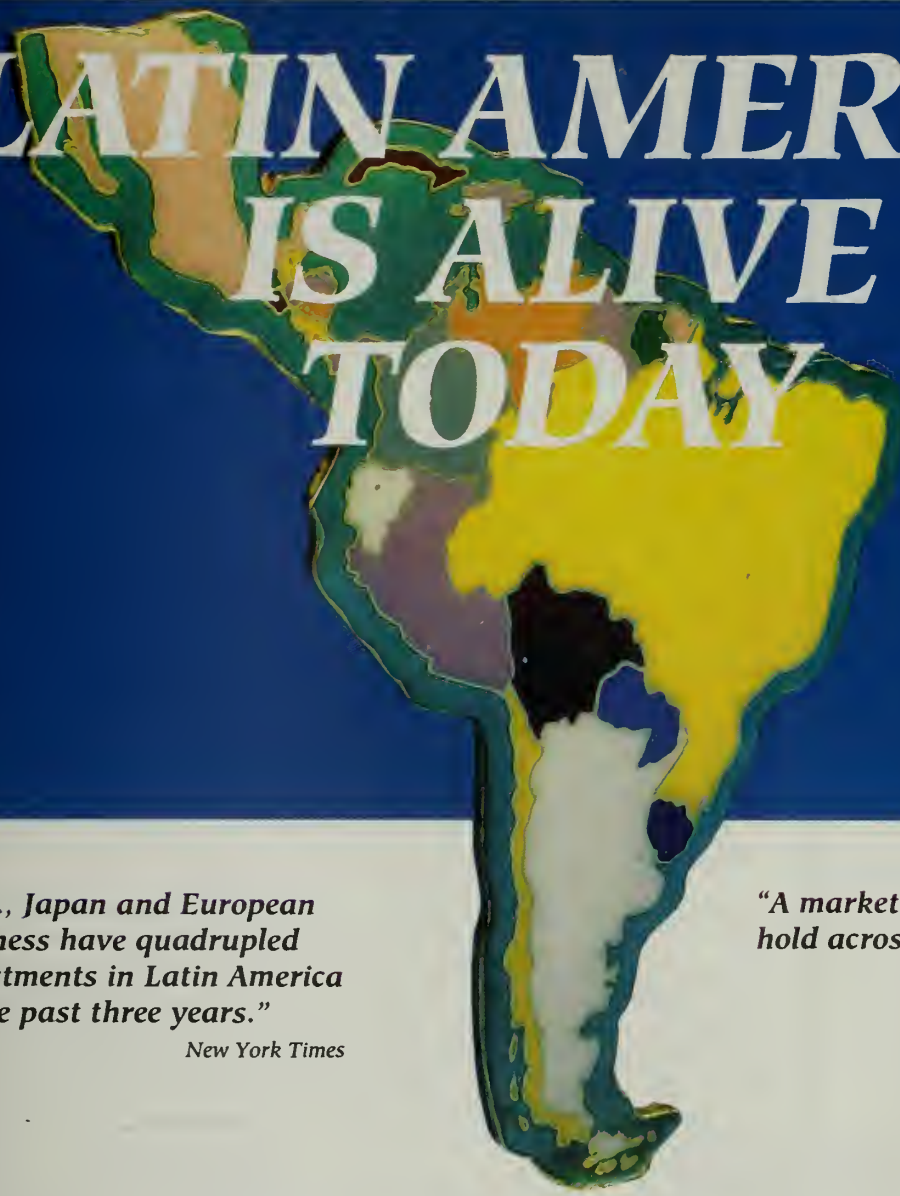
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full range of universal banking services will continue to play an important role in enabling Latin American enterprises to grow and prosper in the stronger political and economic environments that have developed. For progress to be sustainable, there are enormous needs for infrastructure development in the region and a resultant need for capital.

"Project finance will play a major role in the financing of many infrastructure projects over the coming year. We see strong investor interest in Latin America on the part of our global clients. Our commitment to the region and our clients is demonstrated through our long-term and growing local presence in Latin America as well as the recent buildup of our Latin American corporate finance and debt and equity securities activities."

Donald B. Kyle
Managing Director,
Project Finance
UBS North America

it an extra degree of long-term protection to a strong prospect.

The agencies also provide another crucial advantage through various political risk insurance products that protect against expropriation, currency convertibility and the like.

"These products are the building blocks for any infrastructure finance

component," says Porter. Commercial bank lenders or insurance company lenders may balk when they consider the risks 20 years into the future on a cross-border investment. The presence of these agencies gives added comfort that the decision to lend is a wise one. "These players have become the catalyst for the commercial funding marketplace," says Porter.

When contemplating a project, it is never too early to consult with OPIC, even before competing against other companies for a bid, says Ruth R. Harkin, OPIC's president and CEO.

"Maybe there is some way we can be value-added and help a company in actually getting the bid," says Harkin. "While it is certainly possible to do an infrastructure project in Latin America without OPIC participation, having the U.S. government in a deal either as a lender or as a political risk insurer really adds to the comfort level of an investor doing business abroad."

Privatization and Infrastructure

Strong forces of deregulation and privatization are creating tremendous opportunity for infrastructure projects, but they also create special constraints. An understanding of how these forces can and have been used successfully is essential for future infrastructure partnerships.

A number of different approaches are being used in privatized infrastructure financing, the best known of which are called the Build-Operate-Transfer (BOT) structures. There are many variations on the BOT approach, depending on the characteristics of the projects, the regions and participants, but they draw on the same financing sources: export credit agencies, international financial institutions, local and international commercial banks and even the capital markets.

"Bechtel has used combinations of all these sources while developing infrastructure projects around the world," says John D. Carter, president of Bechtel Enterprises, which is involved in the development of Samalayuca, an independent power project near Juarez in Mexico. "The current financing plan for this project includes an export credit agency, inter-

national commercial banks and international bonds."

Over the next 10 years, says Carter, key areas for private sector involvement in Latin America will include power generation, water and wastewater facilities, transportation and telecommunication.

Electric Power Projects

In any discussion of infrastructure development, power projects continue to dominate the list of priorities in Latin America. Toll roads, ports and pipelines are alluring targets as well, but power projects have made up more than half of the projects financed in the past five years in the region.

"Let's face it: The growth of an economy is tied largely to electricity," says Kyle of the Union Bank of Switzerland. "The growth of industry, advances in quality of life and the standard of living are all largely a function of the availability of lower-cost and reliable power."

Through most of the century, power plants had been within the domain of the public sector in Latin America. But with the financial problems of the last decade, that stewardship was marked by a chronic lack of investment, maintenance, modernization and expansion to meet the needs of growing economies.

In the past few years, many Latin American countries decided to open the door to foreign investment in the power-generating sector, at about the same time that changes in regulations in the U.S. made it possible for utility companies to invest in overseas power projects. The result, says Brittain of Deutsche Bank, has been "a huge opportunity" for new players in the market — which has further reinforced electric power production as the key sector of interest to foreign investors.

OPIC provided key support — \$35 million in financing and \$100 million in political risk insurance — to the first Latin American private power venture financed on a non-recourse basis, where the risk is limited to that asset. Mamonal Power, a 100-megawatt, natural-gas-fired generating facility in Colombia, was a "unique combination of public and private sector financing in which our loan guarantees and insurance played a critical

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Strong forces of deregulation and privatization are creating tremendous opportunity for infrastructure projects.

role," says Harkin. "We consider this to be an ideal project in the infrastructure area."

Surface Transportation

All the investment in the world will not bring goods to the marketplace without the development of a modern surface transportation infrastructure – the highways, bridges, tunnels and rail systems that are the backbone of a mature economy.

Early forays into such developments by private businesses, notably in the construction and operation of toll roads, have yielded some successes for investors, with the potential for expansion a tantalizing possibility. During the Salinas Administration in Mexico, for instance, more than 6,000 kilometers of toll roads were constructed through public-private partnerships. Although nascent in their plans, Colombia, Argentina, Chile and Brazil are actively pursuing similar development.

"You have to develop the infrastructure necessary to support industrial growth of the sort envisioned for Latin America," says Scott Miller, president of United Infrastructure Co. "It is one of the things that we just absolutely take for granted in the U.S., that if you build a factory you are going to be able to get your product shipped from point

A strategically situated at the crossroads of the Caribbean, the Americas

and Europe, Puerto Rico has capitalized on its natural geographic advantages and its political affiliation with the U.S. to build a modern economy geared to the challenges of the next century.

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*Jaime Morgan-Stubbe
CEO of Fomento,
Puerto Rico's Economic
Development Agency*

A to point B. That is not a foregone conclusion in these other countries."

Hydrocarbon Development

Latin America represents one of the most significant opportunities for an increase in the world's supply of oil and gas, not only to meet the needs of the local markets, but also to supply other countries around the globe – such as the U.S.

Venezuela has historically been one of the largest providers of hydrocarbons to the U.S., and Mexico has long been a leader in production. Other markets could also play such a role in the near future – notably Colombia, Ecuador, Bolivia and Argentina, along with some potential for foreign investment or privatization of the industry in Peru and Brazil.

Finding local supplies of power will be important to the region. The focus in coming years will not only be in increasing oil production, but also in developing additional reserves and establishing the transportation network needed to bring the supplies to market – whether foreign or local.

"Infrastructure development in the oil and gas business is a significant outlet of challenge and opportunity in Latin America," says Ian Schottlaender, managing director of the global petroleum group at Chase Manhattan Bank. "In many markets, supply outpaces the capability to deliver to market."

One example of that is Argentina, where the burgeoning supply – in part a benefit of the recent privatization of the oil company YPF – cannot be fed efficiently to either the local or export markets because of constraints in transportation infrastructure.

YPF exemplifies the pinnacle of achievement in several areas: the biggest privatization, and at \$3 billion, the largest initial public offering (IPO) to date of any Latin American company, and the only complete opening to private sector development of the hydrocarbons industry in Latin America.

"In the YPF case, very clear and specific objectives were set from the very beginning, and the implementation was carried out with a great degree of transparency and very effective

Brazil, with the most solid industrial culture, will be a natural anchor for both U.S. and European investors. But, strategic and private equity investors will be facing common opportunities and pitfalls of cross-border entry and strategic alliances. Despite extremely attractive growth rates, the volatility of the economy will continue and must be fully understood.

"This is certainly one of the reasons why the asset appreciation and market performance of our private equity investors and corporate clients have constantly outperformed financial markets and competitors."

Hans J. Apostel
Founding Partner
Apostel & Co.

tive leadership," says Jose Estenssoro, chairman of the newly privatized YPF, who was recently named "CEO of the Year in Emerging Market Countries" for his efforts.

The key to this success, according to Estenssoro, was the development of a precise plan guided by knowledgeable professionals, obtaining the full support of the president and congress in Argentina and, finally, drawing on the very strong public support for the country's overall privatization process.

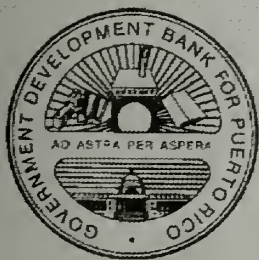
As always, it is a danger to view Latin America as a monolith – one vast region in which similar goals govern the decisions made by governments. Views vary from country to country, and nowhere do those views seem more disparate than when it comes to a policy on hydrocarbon development. The spectrum ranges from Mexico, strongest in its view of the importance of protecting the natural resource base of the country from foreign investment, to Argentina, where the industry is almost fully privatized.

As with other sectors, the need for investment capital in the energy sector outstrips the appetite. As a result, industry participants and financiers are being far more disciplined in reviewing projects – and comparing them with opportunities elsewhere in the world.

Maximizing Access to the Capital Markets

As more and more Latin American countries seek access to capital markets, the key to their success will be in establishing the best reputation possible to guarantee continued acceptance by the markets on the most advantageous terms. YPF illustrates this winning approach, which began with preparing the company for privatization, and continued through the IPO to its Yankee bond issue and through its current medium-term notes (MTN) program.

The key to YPF's achievement, says David Anderson, a director at CS First Boston, which was involved in preparing the company for the IPO, was the oil



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The Government Development Bank for Puerto Rico (GDB) is the fiscal agent and financial adviser to the Government of Puerto Rico and its instrumentalities. It is a key participant in the development of new economic strategies. The GDB assists in the formulation and implementation of financial alternatives to facilitate the execution of public policy, including the privatization of government-owned enterprises.

The Bank is a forceful catalyst for private development. It oversees special purpose subsidiaries which include the Puerto Rico Housing Finance Corporation, the Puerto Rico Development Fund, the Puerto Rico Finance Company and the Arbitrage Compliance Corporation. The Puerto Rico Tourism Development Fund, the most recently created subsidiary, has been instrumental in expediting hotel financing and tourism-related projects on the Island through issuance of guarantees.

As of June 30, 1994 total assets amounted to \$7.5 billion and net income totalled \$110 million for the year then ended. The Bank's capital increased to \$956 billion, making it one of the most strongly capitalized institutions in the world.

Government Development Bank for Puerto Rico

Recent trends in Latin America present a myriad of opportunities for Puerto Rican firms to serve expanding markets in Latin America and to attract tourists from the region. Puerto Rico has significant competitive advantages in several industries as a result of almost five decades of manufacturing activity. The Island has developed a large base of high-technology industries, led by pharmaceuticals, a significant service sector, and is making considerable investments in tourism to make Puerto Rico a premier international travel destination.

"The Government Development Bank for Puerto Rico (GDB), the fiscal agent and financial adviser to the Government of Puerto Rico, also is a key participant in the development of new economic strategies to enhance the Island's international competitiveness and growth. Puerto Rico's new economic paradigm calls for a more efficient, entrepreneurial and innovative government and a partnership with the private sector to stimulate competitiveness.

"The GDB is playing a significant role in the implementation of privatization efforts in new programs to provide affordable housing for the elderly, low- and middle-income residents and is moving rapidly in tourism development, including the sale of government hotels and the establishment of mechanisms to finance new private tourism projects.

"An office recently inaugurated in Mexico City, the result of a joint effort between the GDB and the Department of Economic Development and Commerce, is expected to generate new business opportunities. Similar efforts are being considered for other Latin American countries such as Chile.

"Locally owned businesses, which until recently have been unable to export their high quality products because they lack the international channels of distribution that characterize multinational companies, have found strong and solid support from the Government of Puerto Rico, whose public policy emphasizes the growth of exports."

*Marcos Rodriguez-Ema, Esq.
President*

Government Development Bank for Puerto Rico

company's ability to establish itself as a prime issuer, a blue-chip company that quickly gained a high acceptance with investors. That standing was secured, Anderson says, through YPF's effective interaction with the investment and banking communities at each stage of the process.

"It is a necessity to keep the investor community well informed. There are very high stakes for companies that do not communicate regularly, effectively and accurately," says Anderson, who observes that companies and investors are moving quickly along the learning curve throughout Latin America. This broader base of knowledge is spurring investors to seek out the blue chips within each country and within each industry. "There is a wide disparity in the attitude of investors to companies that master the communication process and those that do not."

The Emerging Hemispheric Trading System

Although startling headway has been made toward market integration in recent years – in the form of regional trade pacts and the beginnings of NAFTA – yet another significant step was taken during the Summit of the Americas in December: Leaders throughout the hemisphere renewed their commitment to create the free trade area of the Americas, and essentially to eliminate all barriers to trade in the region. As part of this commitment, Chile was invited to join NAFTA.

"That is crucially important for business. It means it will be a single huge market," says Dr. Fred Bergsten, director of the Institute of International Economics. "This is a revolution in economic, and I would say political, relations in the Western hemisphere."

Such a trade zone is years away from reality – although Bergsten noted that the tendency for such regional arrangements is to proceed faster rather than slower than planned.

Even in the absence of a formal pact, the momentum generated by NAFTA has motivated countries to align their economies and political systems with the requirements that membership implies. Chile will gain some additional trade benefits as a result of membership, but the simple fact that it was chosen as the next member of the pact gives the country added prestige in the region – an endorsement of the strides toward economic democracy it has made in the years since the passing of its military dictatorship.

"Chile is trying to establish itself as an accepted international player, and above all to show that it is a changed country," says Elliot Feldman, chairman of international trade practice at the law firm of Pepper, Hamilton & Scheetz. "Recognition by NAFTA is an endorsement of democratic development."

The dream of hemispheric integration is an old one – stemming back at least to the days before World War I, when the U.S. Secretary of State was William Jennings Bryan. Today's leaders aspire to a similar vision in which a common set of rules and trading relationships will bolster not only economic strength, but democracy as well. ■

Lynn B. Morrissey lives in New York and writes about the Latin American markets for a variety of publications.

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Allstate Insurance caught market-share fever. After a painful bout and a painful cure, it's healthy again.

We grew too fast"

By Marcia Berss

Allstate chief
Jerry Choate

**First the agents
left Sears stores.
Now Allstate is
leaving Sears.**

INSURANCE STOCKS are under a cloud. Allstate Corp. is no exception. It recently traded at 24¼, close to its book value and down from a high of 34¼ prior to the California quake. Looking backward, it's fairly easy to see why Allstate stock lags the market. Looking forward, however, the picture is a lot brighter.

Allstate, that venerable name in property insurance, has been sore beset: hurricanes, rising interest rates, unfriendly regulators. But one of Allstate's biggest problems was of its own managers' making: It caught market-share fever. In the mid-1980s Allstate chased business in its leading consumer lines. From 1985 to 1990 its share of the private auto insurance market jumped from 10.4% to 12.4%, its share of homeowners insurance from 9.6% to 12.4%.

To get extra business Allstate added agents and relaxed underwriting standards. It was thus expanding straight into trouble. To build the reserves to fund the extra volume, it would need good profits, but the times were not propitious. "We grew faster than we could fund," concedes 55-year-old Jerry Choate, the 32-year veteran who was named Allstate's chief executive officer in August. Between 1988 and 1990, years of high growth, Allstate's net income dropped 26%, and regulators had

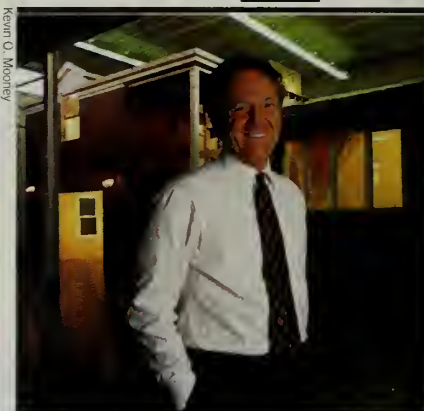
cause to wonder whether Allstate would have enough capital to back its expanded underwritings.

Some managements would have coasted and hoped for the best. Jerry Choate and his predecessor, Wayne Heden, got cracking to correct their mistaken strategy. "We slowed the business intentionally," says Choate, who applied stricter underwriting criteria and adjusted prices. By 1993 market share fell to 12.3% in auto and 12.1% in homeowners.

To ease concerns about Allstate's capital base, parent Sears, Roebuck & Co. sold nearly 20% of Allstate to the public for \$2.4 billion in June 1993 and credited a portion of the proceeds to Allstate's capital account.

The company turned around. Its net income surged to \$1.3 billion in 1993, \$2.99 a share, double 1990's level. After last year's Northridge earthquake, Allstate's 1994 net earnings sank to an estimated \$390 million, 86 cents a share, on revenues of about \$21 billion. But they should recover to about \$3 a share this year as premiums firm, and assuming nature remains relatively benign.

In California, Allstate is seeking—and expects to get—a 100% rate boost in earthquake coverage, to about \$3 per \$1,000 of coverage. And help is on the way from California, Florida and Congress to provide catastrophic



reinsurance for underwriters.

Allstate was a huge winner in November's elections. Politicians who built their careers on bashing the insurance industry were tossed out by the voters. In California, Allstate's biggest market, a moderate Republican who understands business, Chuck Quackenbush, was elected insurance commissioner. Insurance demagogues in Texas (Allstate's fourth-largest property market) and Georgia lost. In Congress, insurance bashers John Dingell and Joseph Kennedy lost committee leadership posts, Representative Jack Brooks was defeated and Senator Don Riegle retired.

With new capital from the 1993 public offering and a much improved environment, Chief Executive Jerry Choate says Allstate is now in a posi-

Room to grow

Company	Sales (\$bil)	—Combined ratio ¹ — actual excluding catastrophic losses		ROE	Debt/capital	Recent price	—P/E— actual excluding catastrophic losses		Market/book
Allstate	\$21.3	112.1	98.7	6.6%	8.9%	24¼	19.0	7.7	1.2
Geico	2.7	96.3	95.0	13.7	17.9 ²	48¼	16.9	15.6	2.2
Safeco	3.5	104.9	96.7	11.9	14.1 ²	51½	9.3	7.6	1.1
20th Century ³	1.2	199.4	98.6	NM	48.5	11½	NM	NA	3.5

Data are for 12 months ended 9/30/94, except combined ratio is for 9 months ended 9/30/94. ¹Losses and expenses to premiums for property/casualty.

²Excludes finance/credit company borrowings. ³Before American International Group equity infusion. NA: Not available. NM: Not meaningful.

With a relatively low level of debt, Allstate has ample borrowing capacity to fund Jerry Choate's growth programs.

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For Cornell Cherry, a UAW assistant team coordinator at the GM Powertrain Division, quality is some corporate slogan. He knows the competition. He knows that if General Motors doesn't deliver outstanding vehicles, customers will look somewhere else. Cornell says, "The managers und

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Allstate

tion to start growing again, perhaps 8% a year. Life insurance sales look particularly promising. Allstate insures one of eight U.S. homes and cars but gets only 6% of its premiums from selling life policies and annuities. Choate figures Allstate's customers are excellent prospects for life insurance. Another growth avenue: international markets like South America and Asia. Earthquake coverage is virtually nonexistent in Japan.

Allstate clearly picks its risks carefully and prices them sensibly. In the key ratio of expenses to premiums, Allstate now has a three to four per-

Allstate is starting to act like the independent outfit it will soon become.

centage point advantage over the average insurer. It still lags the nation's largest personal property/casualty firm, State Farm, which has a five to six point edge. And State Farm writes nearly double the premiums of Allstate, with only 20% more agents.

Why does State Farm do so well? It uses independent agents who sell its products exclusively and use their own capital to hire staff, advertise and make business grow. Allstate has salaried agents whose business growth is limited by the personnel and capital allocated by headquarters.

Jerry Choate is developing a force of independent Allstate agents (now 8.5% of the sales force), but the conversion will take several years. He's also hammering on operating overhead. He says he'll take two points out of Allstate's expense ratio by 1997 (an annual savings of around \$300 million) by consolidating processing centers and investing in computers. "We're taking the paper out of this business," says Choate.

With the recent announcement of the spinoff of its mortgage insurance unit, Allstate is starting to act like the independent outfit it will soon become. In November Sears announced that it will spin off its remaining 80.1% stake to Sears' shareholders by mid-1995, in a ratio of about 0.95 of an Allstate share for every share of Sears.

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Rocky Marciano knew when it was time to hang up the gloves. Not many people do.

Just words

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

EVEN THOSE OF US who have enjoyed *The Far Side* cartoons by Gary Larson should respect his decision to retire after 15 years. Unlike too many people in too many fields, he knows when to pack it in.

Sports fans have seen too many star athletes continue to play after they had become painful parodies of their former selves. Writers who continue to grind out novels long after they have nothing novel to say and aging beauty queens who continue their coquettish ways long after they have become dowagers are typical of the human tendency to be blind to the fact that you have just lost it.

One of the most poignant episodes in the life of Justice Oliver Wendell Holmes occurred when he was in his 90s, when Chief Justice Charles Evans Hughes visited him in his home to tell him that the other Justices thought that it was time for him to retire. Holmes agreed but Hughes nevertheless left the house in tears.

It is not just the elderly who need to face up to the fact that there may be nothing left to say or to do. One of the tragedies of American higher education is that professors are under enormous pressures to "produce"—that is, to publish.

Some of the worst drivel in academia comes from professors in fields such as English, where there are no breakthroughs to make, but who still

have to publish or perish. What is a scholar specializing in Milton or Shakespeare supposed to say that has not been said before?

From the standpoint of teaching, it does not matter that it has been said before, for it has not been said to this particular class of undergraduates before. But the great god Research requires human sacrifices, and the results can be seen in the papers given at the tragicomic meetings of the Modern Language Association, among other places.

History books are being turned out less to inform the public about the past than to make some petty point to demonstrate the "originality" of the author. A recent book attempting to show that Neville Chamberlain was right and Winston Churchill was wrong is perhaps a particularly striking example of this kind of "revisionist" history—or do the quotes belong around "history" rather than "revisionist"?

Even students are increasingly under pressure to say something, even when they have nothing to say. Many college courses require a term paper

What is a scholar specializing in Milton or Shakespeare supposed to say that has not been said before?

and the more ambitious ones may want a paper "solving" some social "problem." That the solutions may be worthless is the least of it. Actively encouraging superficiality is one of the most dangerous things a college or university can do.

When I was a graduate student at the University of Chicago, many courses required a paper for a grade—but it was not necessary to get a grade in order to fulfill the requirements for the Ph.D. Therefore, I was able to

avoid writing papers when I had nothing to say by simply auditing about half my courses.

Later, I was to discover that my mentor, the late Professor George J. Stigler, had gotten his Ph.D. at Chicago after taking only one course for credit and auditing the rest. When he wrote something, it was something worth writing, as the Nobel Prize committee recognized.

Nowhere is the need to say something more urgent than in the media. Imagine if Tom Brokaw or Peter Jennings came on the air to announce that there was really no significant news today, and that there would be a 20-minute interlude of Beethoven sonatas instead.

Honest? Yes. Economically suicidal? Also yes.

The media in general and television in particular have an insatiable need for material to fill the time or the space. Moreover, it must be something to excite, titillate or scare the living daylight out of the audience. Media hype is the predictable result.

There always has to be some grave danger, shocking scandal, colorful demonstration, strident rhetoric or gory scene. Sound and fury do not signify nothing. They signify the bottom line.

This very need for storm and stress puts the media at the mercy of political hustlers. Those whose message can be reduced to sound bites and acted out in bizarre demonstrations in effect supply the TV news programs with valuable footage in exchange for getting free advertising for their causes.

If a business were simply to buy time on a news program, it would be considered utter corruption. But if the transaction is in kind, that is just news coverage.

Cartoonist Gary Larson has set a fine example for us all. He belongs in a special hall of fame for those who knew when to pack it in. Heavyweight champion Rocky Marciano, who retired undefeated after 49 fights, and Ralph Ellison, who wrote one great novel and then stopped, are among the immortals there.

At the other end of the spectrum are the talk shows which encourage everyone to believe that he or she has something to say that others should take seriously, no matter how ignorant and irrational it may be. ■

Back from the brink and ready to roll



Roger Stone's optimism built his family company into one of the giants of the paper industry—and then almost wrecked it. But that close call hasn't dimmed the man's energy or his enthusiasm.

By Matthew Schiffrin

TALKING WITH Roger Stone these days, you'd hardly know this was a man whose business was at the brink of insolvency less than two years ago. "Stone Container will be a \$10 billion company by 1998 and make \$1 billion in net profit," he says.

Although Stone should lose about \$170 million in 1994 and has not made an annual profit since 1990, that prediction is not as wild as it sounds. Yet there were times in the past half-dozen years when Roger Stone wished he had heeded the advice of Grandpa Joseph Stone, a Russian immigrant who founded the company from a small loft in 1926. Joseph Stone, his eldest son Norman and his two other sons slowly built a substantial paper company from a capital base of just \$2,000, and they consistently operated on a simple principle: Build cash when times are good, build capacity when times are bad. In 1974 Roger Stone's uncle, Jerome Stone, then chief operating officer, put it this way: "You may again hear of Stone Container building at times when industry prospects seem darkest and here is talk of overcapacity. We find our best opportu-

nities for future growth in the down periods." It is a principle that takes patience but, faithfully followed, is almost infallible.

Roger Stone, who grew up in comfort, studied at the Wharton School and had no memories of depressions or panics, was of a different generation from Uncle Jerome. An unassuming and hardworking man, Roger is nonetheless a congenital optimist. After expanding fast in the early 1980s, he launched yet another ambitious acquisition program on borrowed money at the peak of the 1980s

price cycle in paper. The last acquisition almost broke the company.

When Roger took the helm in 1979, at 44, Stone was a \$350-million-a-year manufacturer of paper boxes. In 1983 Stone purchased Continental Group's containerboard division for \$505 million, more than doubling the company's size. In 1986 he bought Champion's brown paper operations for \$426 million, and in 1987 he paid \$787 million to buy South-west Forest Industries. Stone Container's papermaking capacity grew fivefold, to nearly 5 million tons.

His debt grew apace, but he was

Canada's Consolidated Bathurst was for sale. It offered Stone a strong presence in Europe. Consolidated owned the largest packaging company in Germany, Europa Carton; the largest producer of newsprint in Great Britain; and a major stake in the Canadian newsprint and packaging industry. Stone felt his company had to be international, if for no other reason than to protect its export markets. In March 1989, just as the paper-pricing cycle was peaking, Stone borrowed \$3.3 billion in floating-rate bank debt. He then bought Consolidated

Bathurst for about \$2.7 billion—using the rest to consolidate and refund existing bank debt. He was now in deep hock to the bankers but confident he would be able to refinance the bank debt with junk bonds.

Then two horrible things happened: The junk bond market collapsed and paper prices went into a swoon from which it took them nearly four years to recover. In 1993 alone Stone's cash flow fell short of annual interest costs by over \$200 million, and \$800 million in debt was coming due within a year. If the bankers did not fore-

close, it was because they did not particularly want to be in the paper business and they did have faith in Roger Stone and his operating team, in spite of their fiscal imprudence. One thing has always been clear. Stone is a first-class entrepreneur and an efficient businessman.

Not until the middle of last year, after paper prices finally started to inch up, was it certain that Stone would pull through. Roger Stone had been through four years of hell. The company survived, but at a price to the Stone family: On a fully diluted basis, the family's publicly disclosed

Stone's fall and rise



Stone Container's stock price gets whipsawed by changes in the price of linerboard. A congenital optimist, Roger Stone predicts linerboard prices will hit \$700 per ton.

able to pay it down quickly. Stone was expanding at low points in the economic cycle, reaping the benefits of the upturn. One of his principal investment advisers was another non-establishment Wharton graduate, Michael Milken. Milken believed in Stone as he believed in an impressive number of entrepreneurs, and backed him to the hilt, eagerly selling junk bonds that enabled Stone to buy whatever he wanted.

In early 1989, with his friend Milken too mired in trouble to be much help, Stone made a near-fatal mistake.

ownership of the company has been cut to 15%. Roger Stone and his able chief financial officer, Arnold Brookstone, spent harrowing months haggling with bankers over debt extensions, which extensions cost the company at least \$70 million in fees. They watched in dismay as, in a solid bull market, Stone Container stock dropped from nearly 40 in 1987 to as low as 6⅜ in mid-1993. At one point Stone Container junk bonds sold for as little as 65 cents on the dollar.

Yet the harrowing experience seems to have left few scars on the ebullient Roger Stone. He feels he has achieved his goal: make Stone Container a major force in both North America and Europe in three core areas—packaging, newsprint and market pulp (primarily used to make fine paper).

Paper mills are extremely capital intensive. Stone says it takes roughly \$3 in plant and machinery to support \$1 in sales. Stone owns 8.1 million tons of capacity. About two-thirds of that capacity and 75% of Stone's revenues are derived from containerboard (linerboard and corrugating medium), which is the chief ingredient in the corrugated boxes and containers



Stone Container Chief Executive Roger Stone
Can he kick his junk bond habit?

By the grace of the banks . . .

ROGER STONE studied finance at Wharton, but those textbooks weren't much help to him in the early 1990s. Behind his desk in Stone's expansive glass office sit computer terminals flashing prices of nearly a dozen of Stone Container's publicly traded securities. Today they sell close to par; as recently as last year they were at wide discounts. Stone Container is a \$5.5 billion maker of containerboard, newsprint and market pulp, but a different kind of paper has preoccupied Stone for the past five years.

Having financed Stone Container's purchase of Consolidated Bathurst in

1989 with bank loans, Stone was waiting for interest rates to fall before he replaced the bank loans with junk debt. He was right about interest rates; they dropped by over 100 basis points within a few months of the deal. But he overlooked one thing: The junk market was in trouble; media and political hysteria was creating a panic in that market. In August 1989, under government orders, savings and loans were effectively forced to dump their junk bonds at giveaway prices. Drexel Burnham was about to file for bankruptcy. Michael Milken, Stone's financial mentor, was jail-bound.

For two years, beginning in the autumn of 1989, Stone was effec-

tively shut out of the public markets for debt and equity. "I remember at the time Michael [Milken] kept telling me to deleverage," says Stone. "It was nice advice but hard to execute. The world kept falling away from us. The trap door kept getting wider and wider and the angle kept getting steeper." As Stone's financial troubles mounted, its stock sank; with each drop in the stock, deleveraging with equity became more costly.

"We have always maintained that equity is the most expensive form of capital," says Roger Stone. It took 46 years from the initial public offering in 1947 until the next equity offerings in 1983. After those offerings, the family's publicly disclosed stake

was around 38%, though Stone had grown nearly fiftyfold.

At the mercy of his bankers, Stone had to pay heavy refinancing fees to roll over maturing loans and amend loan agreements about a dozen times over three years. He and finance chief Arnold Brookstone had to securitize receivables, slash capital expenditures and omit dividends, which further sank the stock.

Gritting his teeth, Stone was forced to sell 9 million shares of stock in October 1991 to raise \$175 million. The stock continued to sink.

In 1992, with the junk market coming back, Stone began to do small refinancings, using such things as convertible exchange-

t makes and sells. It is also the nation's leading manufacturer of paper bags and packages like those used in supermarkets, and in 20-pound bags of Purina cat food.

In a business like this you need to keep your machinery busy. This means that papermakers are slow to cut production when demand eases, and this has a doubly depressing effect on prices. Thus, small changes in demand translate into considerable leverage—up and down—on prices.

Right now, the leverage is powerfully upward. On an estimated \$660 million increase in sales last year—13%—Stone's cash flow should rise from negative \$112 million to nearly \$190 million. (By the same token, a 6.4% decline in sales in 1991 cut cash flow by about 40%.)

Here's how that leverage works: Each \$40-per-ton change in paper prices causes a swing in Stone's operating income of \$325 million, translating into \$1.62 per share in net income (see table, p. 114).

But people like Roger Stone prefer to look forward rather than backward. Since its 1993 lows, the price of linerboard has already climbed around

able preferred stock and interest rate swaps. The deals were expensive, with coupons of about 11%, but they raised about \$500 million.

Roger Stone continued to assure analysts that, with the economy recovering, a dramatic cyclical upturn was imminent. It wasn't happening. Prices continued to fall.

By early 1993 things were getting desperate. The Stone family and other shareholders would have to swallow more dilution of their equity or risk losing the business. His strategy involved a \$750 million refinancing that would include the issuance of about \$500 million in stock. However, news of the dilutive offering sent the shares from 19½ to

around 6½ per share in early 1993. The *Wall Street Journal* suggested that with \$800 million coming due within a year, Stone was in danger of going bankrupt. "Stone was in a footrace, and it was clear that they were going to run out of money," says Paul Greenberg, director of junk bond research for Bear, Stearns.

Stone began throwing assets to the wolves. It sold its Mexican containerboard company and shuttered about 220,000 tons of North American linerboard capacity in 1993. In the summer of 1993 Stone Container issued a convertible issue that converted into Stone common stock at a dismal \$11.55 per share. Stone sold to the public 25% of

Stone's Canadian and British newsprint subsidiary. "We were under siege. I never dreamt that anything like this would take place," says Brookstone, a modest, bookish 30-year Stone veteran.

In the end Stone remained alive only at the mercy of the bankers. As the saying goes: Owe a man enough money and you don't have a creditor, you've got a partner. The banks could have seized the company, but who would run it? No one questioned the business sense or operating know-how of Roger Stone and his team.

The 80 banks, which owned \$2 billion of Stone's \$4.3 billion in debt, decided to give him some more breathing room. And why not? The refinanc-

ing fees were fat, and the banks understood that once the paper-pricing cycle caught up with the recovery, Stone Container, as the world's leading maker of corrugated boxes and brown paper bags, would be flush again. Says Richard Lehmann, whose *Defaulted Bond Newsletter* placed Stone on default alert in 1993: "They stayed alive by the grace of the banks, who couldn't stand the agony of having them go under."

And then the cycle turned. Last year Stone stock rose over 80%, and investors snapped up over \$1.2 billion of newly issued junk bonds. The question's no longer: Will Roger Stone make it? The question now is: How high will he go?—M.S. ■

Alice U. Hargrave



Stone's team: Arnold Brookstone, Leslie Lederer and Michael Wheeler

"We were under siege."

\$180 per ton, newsprint is up over \$140 per ton and pulp has climbed \$350 per ton. With his plants operating at full capacity, Roger Stone is predicting around \$1.6 billion in cash flow this year—which should produce about \$4 a share in net income.

Stone Container will report its first profit in 14 quarters in the final quarter of 1994 and, according to analyst Linda Lieberman of Bear, Stearns, could earn between \$4 and \$5 per share by 1996. Stone's stock, recently at 18½, is up nearly threefold from its 1993 lows; analysts predict it could rise as high as 30. The family's stake, though cut to 15%, has risen in value to around \$240 million.

Stone knows what he must do: Get debt down. In 1994 he refinanced over \$2 billion in debt, stretching maturities but having to pay up to 11½%. He also had to sell common stock at a depressed price, diluting the family's ownership and that of other public shareholders. Though the company still has over \$4 billion in debt, it now has no major maturities due until 1998, when \$500 million comes due. If Stone is right this time about paper prices, paying that off from cash flow will be a breeze.

"If we learned anything over the

The power of leverage

Products	Capacity in tons (000)	Impact of \$40-per-ton price increase on		Price increase per ton from '93 low	Impact of price increase on	
		Operating income (\$mil)	Earnings per share*		Operating income (\$mil)	Earnings per share*
Containerboard	4,800	\$192	\$0.96	\$180	\$864	\$4.32
Kraft paper	550	22	0.11	150	83	0.41
Newsprint and groundwood specialties	1,500	60	0.30	140†	210	1.05
Market pulp	1,100	44	0.22	350†	385	1.93
Miscellaneous unbleached	135	5	0.03	100	14	0.07
Totals	8,085	\$323	\$1.62		\$1,556	\$7.78

*Figures assume 40% tax rate. †Excludes announced March 1995 increase of \$52/ton for newsprint and \$75/ton for market pulp. Source: Bear, Stearns.

Because of hefty capital costs, Stone Container's operating income is affected dramatically by paper prices. Above, the effect of a \$40-per-ton price swing on earnings, and the potential impact of the current round of price increases.

last few years, it is that sooner is better than later [for paying off debt]," says Stone. "We plan to cut debt down to \$2 billion by 1998." Doing so would improve the company's credit rating and cut the company's annual interest burden from the current \$400-million-plus to under \$200 million. The heavy losses of the past few years have provided tax-loss carryforwards that

should enhance this year's cash flow.

Is Roger Stone too optimistic—again? There are plenty of skeptics on Wall Street. Analysts are predicting that the current paper cycle will top out in late 1996 and that Stone Container's earnings will peak around \$5 per share. Stone, however, predicts the current upturn will last into 1997, with linerboard prices peaking at around \$700 per ton, compared with the current \$435 per ton. On that basis, he says he thinks Stone's net income can reach \$1 billion, or over \$8 per fully diluted share, by 1998.

Stone is counting on prolonged rise in demand for boxes in Europe and Asia. And he promises to keep his hands in his pockets, paying off debt, not buying more paper mills. "We plan to become investment grade by the end of the decade, get our debt to total capitalization down from 70% to 35%," he promises.

"Given his past, why should we believe him?" asks Sharyl Van Winkle, a Merrill Lynch analyst. Van Winkle predicted Stone would go bankrupt in 1993 but is now bullish on its bonds. "What guarantee do we have he won't make another big acquisition once he has paid down a little debt?"

What guarantee? Says Stone: "I've told the junk bond people they won't be seeing me anymore." But as Omar Khayyam put it: "Indeed, indeed, repentance oft before/I swore—but was I sober when I swore?"

Tony Paine



Inside Stone containerboard plant

With prices rising, busy machines mean big profits.

Imagine A COUPLE OF SWEDISH ENGINEERS

AND A COUPLE OF GERMAN ENGINEERS

DECIDE TO GET TOGETHER FOR *dinner.*

AND THE SWEDISH ENGINEERS START

TALKING ABOUT SAFETY AND THE GERMAN ENGINEERS

TALK ABOUT THE JOY OF DRIVING.

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VOLVO

Parent/taxpayer unhappiness with the public schools combined with the Republican victory are starting to cut the floor from under the National Education Association's left-leaning monopoly over American education.

Comeuppance

By Peter Brimelow and Leslie Spencer

Research: William Heuslein

NATIONAL EXTORTION ASSOCIATION? The National Education Association didn't like FORBES' nickname for it in our June 7, 1993 cover story. But we were just being objective about this strange institutional mutant, part labor union, part political faction, and its ruthless use of power in pursuit of perquisites.

The largest and richest American union, with 2.2 million members and an estimated \$785 million in revenues, the NEA is also consistently the most powerful presence at the Democratic National Convention, with almost one out of eight delegates in 1992. Those delegates are the key. To a largely unrecognized extent, the NEA is a creature of the dark Democratic night—the shadow that labor union special interests have cast over state and federal governments at least since 1954, the last year that Republicans controlled House, Senate and White House.

While capitalizing on the American reverence for schooling, the NEA is also vitally dependent on extraordinary legal privileges it gained in that period, when it was transformed from a century-old "tea and crumpets" professional association into a brass-knuckled labor union. But what politics creates, politics can destroy. With the epochal Republican election victories in November (*see maps, pp. 122-123*), the NEA nightmare could be dispelled.

About time, too. The rise of the modern NEA has exactly coincided with what critics have called the 1963-80 "Great Decline" of the American education system. This decline notoriously affects performance (the proportion of all 17-year-olds scoring 700-plus verbal or math SATs fell by almost half; math has rebounded, verbal has never recovered). But also, even more calamitous and continuous, it affects productivity (inflation-adjusted per-pupil spending reached \$5,971 in 1993, up almost a third in ten

years and nearly three times the level in 1960).

The teachers union has emerged as the major obstacle to school reform, with its California affiliate spending an astounding \$12 million to defeat the 1993 Proposition 174 voucher proposal. In its spare time the union fights attempts to limit taxes, to cut government spending and even to curb illegal immigration. Its agenda, in short, is more political than educational.

Like all unions, the NEA is a legally sanctioned attempt to monopolize a particular labor supply. But, unlike private sector unions, the NEA is a monopoly on top of a monopoly: The only consumer is the government-dominated kindergarten-to-12th-grade education industry. This relationship gives the NEA privileged access to public policymaking—arguably unconstitutional—and an indisputable incentive to develop its political muscle.

So obvious is this potential for abuse that public sector unionization was long viewed as unthinkable even by labor allies like Franklin D. Roosevelt. But these scruples were abandoned around 1960. In re-

turn for union support, the Kennedy Administration allowed federal employee collective bargaining. State governments capitulated about the same time.

Coming out of a labor-dominated state, NEA President Keith Geiger, Executive Director Donald Cameron and other members of the tight-knit "Michigan Mafia" were able to convert the NEA from professional association into union—so slickly that press, public and even some NEA members still appear unaware of what has happened.

The NEA's peculiarly deceptive structure helps keep this distressing truth from the American public. Although the NEA is in fact highly centralized, its public face is usually one of the 13,000 local-level or 52 state-level affiliates, to which each individual member must also belong.

Rusty Costanza/The Times-Picayune



NEA President Keith Geiger and First Lady Hillary Clinton
Love feast at NEA 1994 Convention.

Accompanied by DeLee, Hillary Clinton gave the keynote address at last year's NEA annual Representative Assembly, boosting her health care plan. At this love feast, Keith Geiger presented the First Lady with an award named after an earlier NEA president (*see photo, p. 121*).

(Delegates also wanted to retaliate against FORBES for its cover story. Geiger announced amid cheers that “FORBES has already been purged” from the list of discount subscriptions offered to NEA members.)

At the beginning of 1995 the NEA can best be described as unbowed but bloody. The school voucher movement and a general public disenchantment with the public school system have landed painful blows. The Republican victory in the November 1994 elections deprives the union of its staunchest sponsors in Congress. NEA's strategic problem is acute: It must resist

Elephant stampede in union stronghold

Besides winning the U.S. House and Senate in 1994, the Republicans gained 11 new governorships, total control of 11 new state legislatures, new partial control of 6 more—a real threat to teacher union privilege.

To a largely unrecognized extent, the NEA is a creature of the dark Democratic night—the shadow that unions have cast for 40 years.

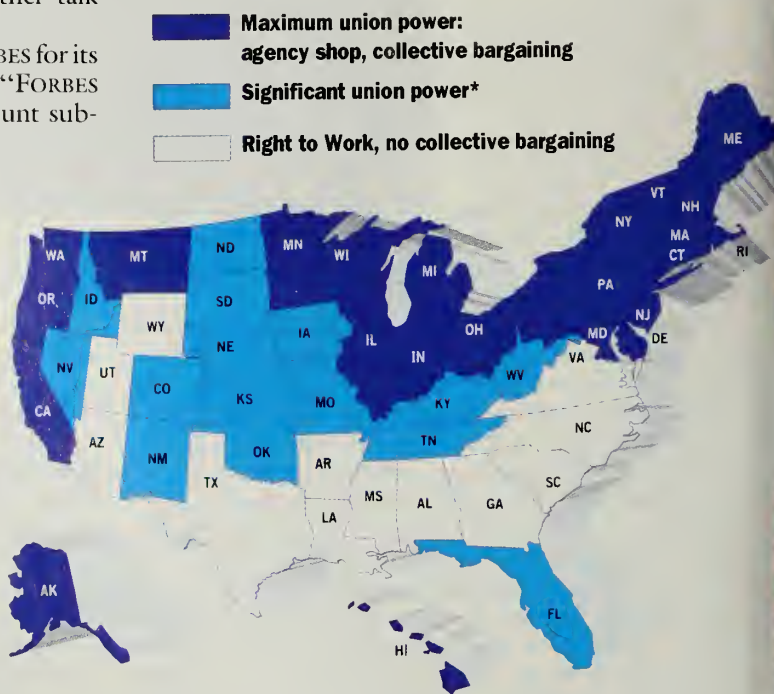
threats to the government school cartel everywhere; it can afford to lose nowhere. Give parents choice almost anywhere, and the dam breaks. The union panjandrums know this. The strain is starting to show.

The teacher union can still win victories. It can take over school boards, as it did last year in San Jose's Union School District in order to divert land sale proceeds to teacher

salaries, and in Virginia Beach, where it successfully—and typically—smeared an antiunion candidate for the school board as a member of the “Religious Right.” (The union candidate, who reportedly raised a remarkable \$75,000 from 15 NEA state affiliates, subsequently turned out to have a bogus Ph.D. and has been convicted by a jury of campaign violations.) It can intimidate New Jersey Governor Christie Whitman, according to reports, into delaying her voucher plans for Jersey City’s troubled school system.

But although the union did eventually defeat California's Proposition 174, aided by an unscrupulous whispering campaign that the measure would open suburban schools to inner-city blacks, it spent so much money fighting the voucher proposition that it could not play its usual role in last November's elections. At one point it seemed possible that the head of the NEA's affiliate would be the next Democratic governor in Alabama—where some 40% of the legislature were teachers, ex-teachers or teachers' spouses. In fact, Republican Fob James won, in part by capitalizing on education system difficulties.

And in Michigan, where the much-feared NEA affiliate directly confronted Governor John Engler over school reform, it not only disastrously failed to defeat him but also



*These states have different combinations of collective bargaining and/or other union privileges

became a political issue itself, along with its captive insurance monopoly. As a result, several of its legal privileges have been stripped away.

The NEA is finally on the defensive. Particularly intriguing was the teacher union's defeat over California's Proposition 187, aimed at curtailing education and welfare spending on illegal immigrants. Regardless of the merits of immigration, the presence of some 4 million illegal immigrants in the country quite obviously makes life difficult for classroom teachers. Yet the NEA's California Teachers Association affiliate was the largest single donor to the ludicrously misnamed Taxpayers Against Proposition 187. Along with the California public employees union and a Mexican-owned Spanish-language TV network, it provided 80% of funds raised.

The union bosses' stand appears to be a matter of pure political dogma. The NEA Assembly 1994 resolutions mentioned immigration only to call for making it easier. Another NEA resolution called for taxpayer funding to maintain the native languages of students "before and after" they learn English—apparently envisaging the creation of permanent linguistic minorities.

But the rank and file don't like it. "There's very widespread frustration in the classrooms over illegal immigration," says Ezola Foster, a celebrated black teacher and author from Los Angeles (*What's Right For All Americans*, due this month from WRS Publishing), who supported Proposition 187. "There's lots of low morale in my school because of the union position. . . . They know their members are hurting because of overcrowding and bilingual education. They

never do anything to help."

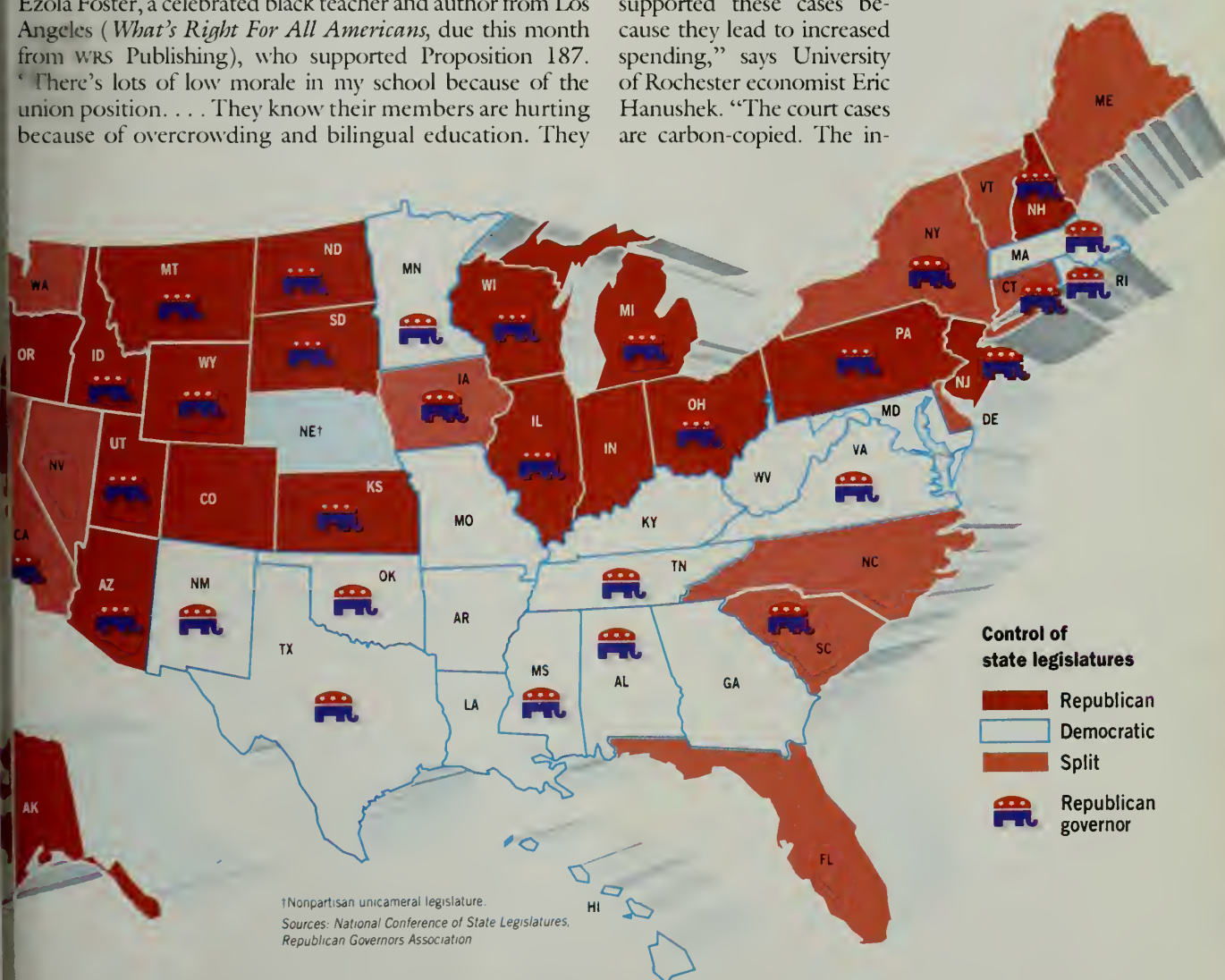
Foster says union officials actively favor bilingual education, which brings a \$5,000 salary increment for bilingual teachers. She says they collude with school administrators to punish any teacher who persists in complaining. Only California's agency shop rule keeps her—and many others—in the union at all.

But political conflict is only one aspect of the NEA's activities. *FORBES* has found that its influence extends much further, into issues and institutions that at first sight appear unrelated.

■ **Funding equalization.** Education arguments that are supposedly about equity for students have a funny habit of turning out to be about earnings for teachers. Example: funding equalization—the ingenious theory that different localities' differing spending denies "equal protection" to students and must therefore be unconstitutional.

At the federal level, the Supreme Court rejected this claim in 1974. But at the state level, it has worked some 15 times. Sometimes it has turned politics upside down, as in Texas and New Jersey. Wherever the claim has been upheld, it has led to an increase in jobs in the educational system—and additional dues for the NEA.

"Teachers unions have supported these cases because they lead to increased spending," says University of Rochester economist Eric Hanushek. "The court cases are carbon-copied. The in-



crease goes toward things like teacher salaries, reducing class size, specialized programs that add personnel."

Thus the \$36.5 million extra state aid designated to equalize Boston schools over three years after a recent court decision was effectively eaten by an \$80 million teacher wage and benefit contract. "We want to make sure the money goes for real reform, not for teacher pay raises," Governor William Weld is reported as saying. But legislative efforts to keep equalization funds out of teachers' pockets failed.

Er—does the increased spending produce (ahem!) equality of results? There's absolutely no evidence that it does anything more than increase taxes and expand the educational bureaucracy. "Funding is not related to school quality," says Hanushek, editor of the Brookings Institution book *Making Schools Work*, which argues the point at length.

The teachers union's response: to join in a new round of litigation aimed at educational "adequacy"—not just equal but higher spending in disadvantaged areas.

■ **Outcome-Based Education.** Judged by letters and calls to *FORBES*, no aspect of current education policy has aroused more intense grassroots parental concern than "OBE." It particularly alarms parents because it downgrades content matter in favor of nebulous "outcomes" like "thinking skills," "group learning" and associated educrat gobble-dy-gook. Other "outcomes," such as becoming "concerned stewards of the global environment" and "demonstrating respect for the dignity, worth, contributions and equal rights of each person," are clearly not educational at all, but in the American context today nakedly political. Conservative and religious parents suspect that their values are under attack. They are probably right.

The teachers union did not invent OBE. Paradoxically, it seems to have begun as a Reagan Administration attempt to enforce standards that (as often happens to education reform efforts) was hijacked and turned inside out. OBE is now merely yet another of the top-down panaceas that sweep across America's socialized education system—just like the Soviet Union's attempts to solve its perpetual farm crisis by nostrums like expanding into "virgin lands." But

Arguments supposedly about equity for students have a habit of turning out to be about earnings for teachers.

OBE gets the union's tenacious support, with opponents accused of belonging to the dreaded "Religious Right." The head of the NEA's Pennsylvania affiliate calls them "voucher vultures . . . for whom OBE stands for Opportunity to Bash Education."

One reason for the union's vehemence: OBE is labor-intensive and yet usually untestable. (In fact, in fully implemented OBE schemes, grades and credits could be abolished. This would reduce embarrassing questions about teacher performance.) But let's be fair. Another reason is certainly the NEA's genuine emotional commitment to the elitist, progressive, social-engineering culture that pervades America's government-cartelized education establishment.

■ **Whole Language.** Also apparently suffusing the culture of the education establishment is a weird aversion to explicitly teaching phonics, the letters and syllables that build up to words. The NEA, by contrast, favors the system by which children are supposed to learn by intuiting entire words in context—an approach called Whole Language in its latest incarnation—for example, publishing four how-to books on the subject. Astonishingly, this war has been going back and forth for decades.

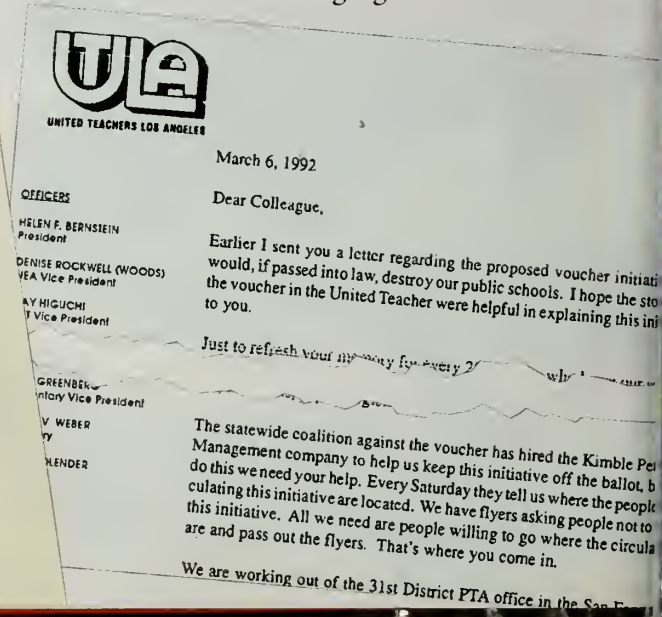
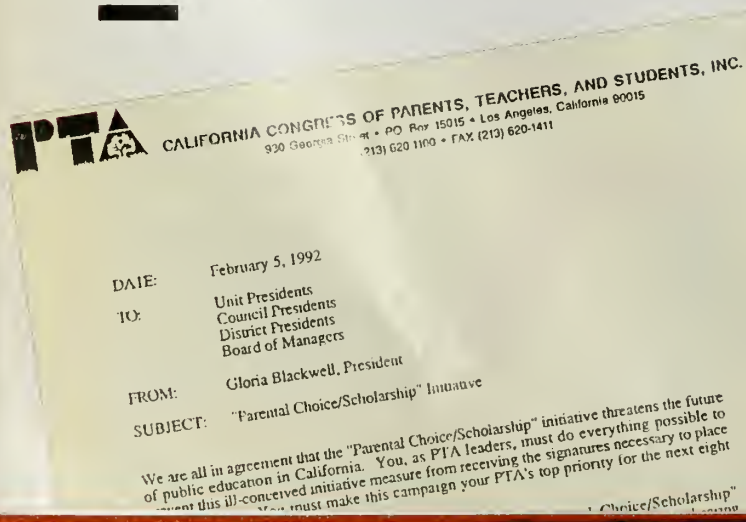
Parents dislike Whole Language because it downgrades accuracy—children are allowed to approximate meanings—and also because it seems not to work: San Diego schools, for instance, found that the percentage of first-graders scoring above the median on reading tests dropped by half after 18 months of Whole Language instruction. And a study of two schools by University of Georgia Professor Stephen Stahl shows that children at the school using traditional instruction far outperformed those at the Whole Language school. "All the evidence shows that direct and systematic phonics instruction improves reading skills when added to programs that don't use it," says reading authority Patrick Groff of San Diego State University.

Yet Whole Language is increasingly inescapable: Many states have actually mandated its use. Grassroots phonics groups like the National Right to Read Foundation have sprung up in protest.

The NEA likes Whole Language because of the easier

Internal PTA-teacher union documents

Show joint lobbying.



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Los Angeles teacher Ezola Foster
Union never does anything to help.

standards and because of its educrat loyalties.

Bottom line: The government-monopoly education system supported and dominated by the NEA forces these essentially technical issues of pedagogy to be fought out in the political arena. Parents who favor different standards and different methods but who lack the means to send their kids to private schools have no recourse but to do wasteful political battle with the union.

■ **Parent Teachers Association.** In many parts of the country, the PTA has degenerated into little more than an auxiliary of the NEA. "You were the voice of California children!" Pat Dingsdale, president of the California PTA, told its convention to great applause last year. "PTA volunteers defeated Proposition 174; all the California Teachers Association did was put up the money."

At least, that's what Dingsdale said according to notes kept by Charlene K. Haar, coauthor with Myron Lieberman and Leo Troy of *The NEA and AFT: Teacher Unions in Power and Politics* (ProActive Publications) and author of a forthcoming book about the PTA. Dingsdale herself vehemently denied to FORBES that she made the statement. But she flatly refused to let us see the convention video.

In fact, it is perfectly clear from leaked documents (see p. 124, bottom) that the PTA slavishly followed the teacher union lead on the school choice initiative. The PTA even joined in the controversial effort to keep the measure off the ballot altogether by harassing its supporters as they tried to gather petition signatures. So committed is the PTA to union positions that it has been prepared to alienate its own constituency. For example, it has been willing to

alienate Catholic parents, who can't see why their tax dollars should not be used in Catholic schools. This has contributed to the PTA's continuing membership slump, from 12 million in 1966 to 7 million today.

So why is Dingsdale so sensitive? Like the NEA itself, the PTA presents a very different local face. Most PTA members spend their time on bake sales for their schools. Many might be shocked to find the fraction of their \$8 or so dues that is quietly diverted to the state and national bureaucracies—it adds up to at least \$11 million a year—actually finances an auxiliary regiment in the NEA's partisan crusade.

The IRS might be shocked, too. Under the murky law governing 501(c)(3) organizations, the PTA is supposedly barred from all but "insubstantial" lobbying on issues like Proposition 174 and elsewhere.

It seems quite clear that the PTAs are in widespread violation of this regulation. "They attribute almost nothing to lobbying expense, but virtually every session I attended was about their legislative agenda," says Haar, who was recently asked to leave both the Virginia and Maryland PTA state conventions despite her press credentials. (Asked about Haar's eviction, a Virginia PTA spokeswoman told FORBES: "We have rules and regulations.")

And what exactly is the role in Washington of the PTA's "Director of Government Relations" Arnold Fege (reported salary: \$76,000) and his three-person staff? Recently Fege was quoted complaining that tax-free status often inhibits children's advocates from direct political action.

But he seems to manage anyway. We have Senator Edward M. Kennedy's word for it. In a letter in *Education Week* this fall, the Massachusetts Democrat explicitly credited the PTA with "generating and reinforcing support" for two Clinton Administration education bills, defeating voucher and school prayer amendments, and helping in the confirmation of officials like former Surgeon General Joycelyn Elders. Said Kennedy: "We could not have done it without the PTA."

The PTA has long been in the NEA's pocket—literally: It rented space from the NEA for years before World War II, and its "government relations" staff worked out of NEA's Washington headquarters until 1990. Once the PTA's teacher members became unionized, it was inevitable that

AFT affiliate paper
The AFT is reputedly less partisan than the NEA, but this affiliate pulled out all the stops to reelect New York Democratic Governor Mario Cuomo.

Fat and happy

NEA teachers probably don't know how fat and happy the union bureaucracy has become. And they can't easily find out from government-mandated filings. Thus, filings show Geiger and Cameron's salaries, allowances and expenses in 1993 were \$240,000 and \$194,000, respectively, and through these filings NEA headquarters' curious Michelin-man salary structure can be discerned.

But benefits and terms of employment are not reported. And critics suspect they are lavish.

The critics are right. Recently, documents leaked by a disgruntled employee of the NEA's Indiana State Teachers Association

affiliate have provided an extraordinary insight into the wonderful world of the teacher union bureaucrat.

Only 9 of the Indiana affiliate's 119 employees reported salaries above \$70,000 in August 1992. But a devastating analysis of the leaked documents by William Styring of *Indiana Policy Review* concluded that, in fact, no fewer than 40 of the state union's staff received total compensation packages that were worth more than \$100,000.

The lowliest ISTA clerical employee received a total compensation package worth more than \$36,000—about \$4,000 higher than the total compensation of a typical beginning Indiana teacher.

Reason: benefits like

very generous vacations (almost 12 weeks for 16-year veterans), cars and credit cards (available to nearly half ISTA's staff) and even allowances for something called "companion travel."

Boondoggle bimbos?

Not surprisingly, ISTA's turnover is infinitesimal. Thus over a third of its staff qualify for those 12-week vacations. These lucky employees include a goon briefly jailed after attempting to vandalize a school board member's car during a 1985 teachers strike.

ISTA protested to the press that its remuneration was "not unusual" by NEA standards. If so, this suggests the NEA's Geiger and Cameron actually receive total compensation packages of \$335,000 and

\$300,000, respectively, and that some 2,000 NEA and affiliate officials get over \$100,000 a year.

Styring points out another unique teacher union privilege: Some staffers are former teachers who remain eligible for their teacher pensions on top of their union benefits.

Thus Indiana State Teachers Association veterans, he calculates, could possibly retire on more than 100% of their final salary. And these pensions are funded by the state taxpayers—who are therefore in the remarkable position of having to pay the union that organizes against them.

In the private sector, such employer-union subventions are illegal under the Landrum-Griffin Act. —P.B. and L.S.

they would dominate the less organized parents. As early as 1968, teacher pressure forced the PTA to direct that its affiliates should be "neutral" in teacher strikes.

Parents can still make a difference. Greenwich, Conn. mother and former media consultant Kay Wall campaigned effectively against OBE while president of her PTA local. Other area locals have seceded to escape educator control.

Perhaps the PTA should return to its original policy after its 1897 founding and exclude teachers from its membership. Or change its name—to Poodle Teachers Association.

■ *American Association of Retired Persons* (AARP). With 33 million members and \$360 million total revenues, AARP is more than half as big as the Catholic Church in the U.S. Like NEA, it is notoriously committed to liberal policy goals, even when alienating its members (FORBES, Nov. 25, 1991).

Less obvious is AARP's intimate interlock with the teacher union movement. AARP was originally founded by a teacher. Its current president and president-elect were previously involved with state retired-teacher associations. Nine of its 21 directors are former educators, including at least one ex-president of an NEA affiliate.

Many AARP staffers "come out of the education world," according to an internal source. For example, James Butler, now head of AARP/VOTE, the association's voter mobilization education program, is a former longtime NEA state and regional bureaucrat. Bill Hayward of AARP/VOTE in California was for 20 years with the California Teachers Association, and is proud of the large numbers of CTA

alumni he has brought into his AARP arm. AARP's California State Legislative Committee is dominated by a "strong leadership cadre" of teachers.

No surprise that AARP echoed the NEA support for Clinton-style health reform—and its opposition to Proposition 174.

■ *American Federation of Teachers*. In late 1994 rumors were rife of an imminent merger between the NEA and its main rival, the 875,000-member, \$140-million-plus (revenues) American Federation of Teachers and its state affiliates. NEA critics were appalled. Not only would merger enormously enhance NEA power, but it would presumably end the AFT's (relative) openness to reform—a tradition very personally identified with its brilliant and cunning president, Albert Shanker. (This tradition is arguably not only relative but mainly rhetorical: AFT affiliates behave much like NEA affiliates and the union is equally devoted to Democrats. See p. 125, bottom right.)

Well, this particular apple isn't falling into the NEA's lap anytime soon. Merger talks dramatically collapsed Dec. 19. The AFT cited the NEA's mandatory minority quota and its unwieldy, centralized governing structure, which leaves the union bureaucrats in control.

But Shanker may well have cited the decisive reason in his oration to the AFT annual conference last summer.

The merged union, he said, "would be unlike any other union that now exists in this country or that ever existed. . . . If the organization is viewed as a big monster, as the NEA already is, by not just the right wing but by some

people who are sort of near-center [probably a reference to FORBES], because of its size, does that organization become a target? . . . That's a real danger."

As Shanker well knows, the "monster" is indeed at last in danger. The NEA nightmare can be dispelled by light in the form of victorious Republicans at the federal and state levels. Here's how:

■ **Ensure "Right to Work."** Bar "agency shop" laws that compel nonunion members to pay public sector unions for the alleged cost of collective bargaining. This could be done either through more state right-to-work laws (there are currently 21) or through a federal right-to-work law reversing the U.S. Supreme Court's questionable 1977 *Abood* ruling. This ruling held that nonunion public employees had to pay their "fair share" of a union's collective bargaining costs, but not for its political and ideological activities. (Although some subjects like math could command more than union rates.) Result: continuing hand-to-hand combat between the teacher unions and litigants backed by the indefatigable National Right To Work Legal Defense Foundation about how much union activity is collective bargaining.

The teacher union would still exist under Right To Work. But it might turn out that many teachers don't want to pay \$400 to \$600 dues a year.

■ **Reform public sector collective bargaining statutes.** The teacher union's monopoly bargaining privilege is the basis of its power—even in Right To Work states, nonmembers cannot negotiate their own terms. But in the 1960s rush to recognize most public sector unions, what legal scholars regard as a serious constitutional objection was never answered. Most public sector unions inevitably end up bargaining policy with government. Other concerned groups are ignored—such parties as students, parents and taxpayers. This may well be a Federal Equal Protection violation.

A state level approach to this problem: Allow teachers the right to opt out of union contracts, as attempted in Michigan in 1993 and, currently and more comprehensively, in Indiana. Or allow school boards to opt out of mandated collective bargaining.

■ **End "unfunded mandates."** A common union-backed "school reform" tactic is the "unfunded mandate"—state legislation that end-runs local voters to impose duties and costs on school districts. "Massachusetts' 1993 reform law imposed teacher protections like restrictions on the school board authority to hire and fire," grumps Peter Rogers, a disgruntled former chairman of the Nahant school board management study committee. But the tactic is wearing thin: New York Governor George Pataki has just explicitly denounced it.

■ **End NEA headquarters property tax exemption.** Unique among unions, this anomaly derives from the federal

charter the NEA received in its professional association days—and is worth some \$2 million a year, almost half NEA-PAC's spending.

D.C. Mayor Marion Barry needs the money.

■ **End taxpayer funding of retirement benefits for union staff.** Judging by Indiana's example (*see box, opposite*), this could be worth as much as \$4.6 million annually to the teacher union. Rhode Island General Treasurer Nancy J. Mayer says such legislation last year saved her state \$13 million. The NEA affiliate suit challenging the law has backfired: One local chapter is withholding dues to its parent in protest against union financing of the appeal.

■ **End release time with pay for teachers to conduct union business.** Currently bargained into union contracts far in excess of private-sector equivalents, this could be restricted at the state level.

■ **End teacher tenure—allow merit pay.** Unions block recognizing teachers' individual performance because it divides their flock. California Governor Pete Wilson has recently advocated both.

■ **End government agencies' collection of PAC contributions for private organizations.** Currently, many school districts agree to deduct union PAC contributions from payrolls, cutting NEA fundraising costs and requiring individual teachers to take positive, sometimes difficult, steps to opt out.

■ **End taxpayer funding of union-sponsored National Board for Professional Teaching Standards.** The federal government has already coughed up \$20 million, and several states have also kicked in. Author Myron Lieberman, senior research scholar at the Social Philosophy and Policy Center in Bowling Green, Ohio, says that the teacher unions have already repeated-

ly opposed standardized testing of teachers and students, and predicts that the "standards" will simply be an excuse to jack up salaries.

■ **Give teeth to antistrike laws.** Attempts to prohibit teacher strikes have been so ineffective that paradoxically strikes are at least as common in the 40 states where they are illegal. But real penalties can be imposed: A Michigan law now docks teacher pay for every day on strike—and in Iowa, not just the public employer but any district resident can sue if unions break no-strike agreements . . . so they don't.

■ **Apply private-sector-type restrictions to union encroachment on management.** Public sector exemption often means that teachers, spouses of teachers and even spouses of union officials can sit on school boards and vote on salary increases—regardless of any conflict of interest.

■ **Abolish Goals 2000.** The NEA was intimately involved in this Clinton Administration initiative. Arguably the groundwork for federal curriculum control, Goals 2000 dangles funds before states in return for adopting OBE-ish standards—and originally tried to discourage phonics.

■ **Abolish the U.S. Department of Education.** The NEA wanted this federal toehold. Chop it off.



Author Charlene Haar
Ruled out by the PTA.

With bonds as cheap as they are and the stock market still high, could fixed income investments outperform equities over the next few years? Here's a shopping guide for bond mutual funds.

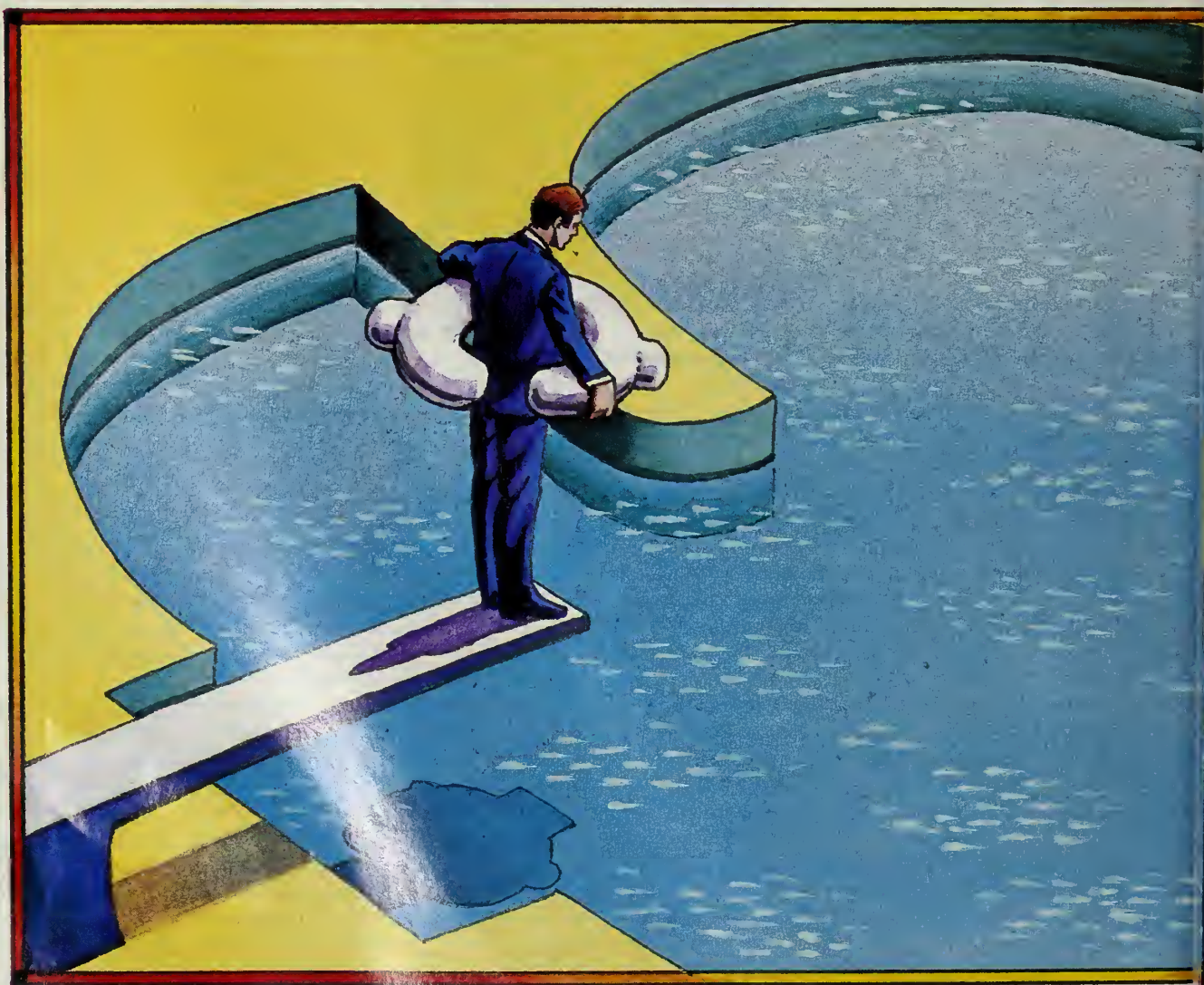
The year of the coupon

By Mary Beth Grover and Jason Zweig

LIKE A WILD WEST lawman blazing away with a six-gun in his hand, the Federal Reserve raised rates six times in 1994, dropping the bull market in bonds dead in the dust. After delivering 12.9% compound annual returns since 1982, the Merrill Lynch corporate/government master index, which measures both interest income and capital gains or losses, lost 3.3% in 1994.

Small investors reacted with predictable panic. Mutual fund investors, who had poured \$90 billion into bond funds in 1993, yanked out \$54 billion last year, reckons Avi Nachmany of Strategic Insight, a fund research firm in New York City.

To FORBES, the lesson in all this is clear: Now is not the time to sell bond funds. It is the time to buy them. When so many people are so pessimistic, the market bottom cannot be all



that far off.

Look at it this way: The bond market has already had its setback; the stock market hasn't. Some shrewd conservative investors think stocks, already fairly dear, will do well to return 8% a year over the rest of this decade. That's with a fair degree of risk. Meanwhile, you can get almost that much, with no risk, by holding medium-term Treasuries to maturity.

Yields on 5-year to 20-year Treasuries are the highest since mid-1991. And the real yield (yield minus the current 2.8% inflation rate) on 20-year Treasuries is 5.1%. That's double the average for the last 25 years and the highest level since August 1988. If you hold to maturity and reinvest your coupons, you can be assured of ending with a real gain, except in the unlikely event that the inflation rate were to spike up close to 8%. Even

then your loss would be minor.

Stocks? The dividend yield on Standard & Poor's 500 stock index, 2.9%, is two percentage points less than its average yield since 1926.

If you want to get a sense of how bond yields compare with stock yields, compare the real bond yield of 5.1% with the 2.9% nominal yield on stocks. (Don't try to subtract inflation from stock dividends because they are already inflation-protected; over long periods, dividends on stocks more than keep up with the cost of living.)

We've said that the 5.1% real bond yield is high by historical standards, and that the 2.9% stock yield is low. How about the difference between these two figures? The 2.2% yield advantage to bonds is also historically high, according to researchers Ibbotson Associates of Chicago. That should give prospective stock buyers pause, although, to be sure, the number is no sure-fire predictor of what the markets will do in the future.

Put it this way: If you think the market is overdoing its pessimism about inflation or its optimism about corporate profits, then you should be lightening up on stocks and buying bonds instead.

"This is the cheapest bonds have been in five years," says William Gross, who runs \$55 billion in bonds at Pacific Investment Management Co. (FORBES, Mar. 15, 1993). Note that Gross does not expect a big bull market; he's looking for bond returns of 7% to 10% this year, a bit higher than interest payments. For stocks to beat that, you would have to assume that the Dow Jones industrials will burst through the 4000 mark and keep going. It could happen, but it's not guaranteed, while short-term bonds held to maturity are all but guaranteed.

"We're long long," effuses Daniel Fuss of Loomis Sayles Bond Fund (FORBES, May 24, 1993). "A year ago I was really down in the dumps," says Fuss. "Now I'm a happy person again." Last month Fuss sank 9% of his \$82 million fund into U.S.-backed, dollar-denominated "Brady bonds" issued by Argentina, Brazil and Mexico after the Mexican peso panic knocked them for a loop. These are currently yielding 14% or so.

Bond bulls can take comfort from

the views of Robert Rodriguez, portfolio manager of FPA New Income fund. In late 1993, just when bonds were peaking, he moved his fund into short bonds. Smart move: His fund was one of last year's rare winners (FORBES, Aug. 29, 1994). Now Rodriguez is racing the other way. "The consensus is so high that rates have got to rise," he says, "that the time is ripe for taking some risks." His favorite buy right now: five-year Treasuries, which he reckons will deliver a 3% return even if interest rates rise 1.5 percentage points in the next year.

Also attractive right now: higher-quality junk bonds. Their relatively high yields offer some protection against a run-up in interest rates, while their relatively short maturities offer further protection.

Those in the highest tax brackets—taxpayers in some states get to keep barely half their pretax income—should look seriously at municipal bonds. For high-bracket people, an 8% yield from taxable Treasuries yields less than 5% after federal taxes, barely two points ahead of the inflation rate. Many good municipal bond funds currently yield 6%—after federal tax, that is. But to get that maximum rate you might have to go fairly far out in maturity, enhancing your market risk.

Higher expenses are bad news. Give preference to no-load funds with low management charges. Unlike stock investing or junk-bond investing, where a talented manager can sometimes sustain market-beating performance for long periods, investing in high-grade bonds is a game of inches. While picking the right or wrong stock or junk bond can make a huge difference in a portfolio, high-grade bonds of the same maturity and call provisions tend to perform almost in lockstep. The fund with the lowest expenses is the likeliest winner. Look at it this way: If a fund portfolio earns 8% and the manager charges 1% in expenses, he is, in effect, keeping 12% of your yield.

Pick your point on the yield curve. Over the past decade the funds that made the most money were those with the longest maturities; as interest rates fell, long-term bonds skyrocketed in value. Remember that as you look at performance records. If you pick the fund with the highest histori-



Leon Francis Allaux

cal returns, you will be taking a big dose of interest-rate risk. That's fine if you think rates will stay stable or keep falling. It's a bad idea if you think they will rise again.

In the tables that follow these articles, a high grade for performance in upmarkets and a low grade in downmarkets denotes a long-term fund, regardless of the fund's own description; conversely, a low upmarket grade and a high downmarket grade indicates a short-term fund.

Steer clear of funds that advertise outsized yields. Such yields are achieved by taking on additional risk. Fundamental U.S. Government Strategic Income Fund has promoted its high yields for years. But its total return, not yield, that matters. At the end of last year, this fund yielded 10.4%—but its total return for the year was negative 25.6%.

Think twice before buying a "cheap" closed-end fund. After trading at premiums to their portfolio values for several years, closed-end bond funds have fallen to an average 5% discount. But if its expenses are well above those of a comparable open-end fund, a closed-end is no bargain (FORBES, Aug. 1, 1994). For example, closed-end Income Opportunities Fund 2000, which invests largely in mortgage-backed securities, pinches its shareholders for 2.7% in annual expenses; open-end Benham Target Maturities-2000, which invests mainly in zero coupon Treasuries, charges just 0.6%. Both funds plan to liquidate in the year 2000—but the Benham fund is more creditworthy, has some tax advantages and is simply far cheaper. Even at its recent 12.5% discount, Income Opportunities is the worse buy.

A lot of wise investors, John Templeton among them (FORBES, Jan. 16), shun bonds as truly long-term investments. If you're looking 10 or 20 years ahead, these bond-shunners are probably right. But if you are looking out over the next couple of uncertain years, there's a lot to be said for pocketing 8% and letting someone else test his luck in a high-priced and vulnerable stock market. Ian MacKinnon, who runs \$26 billion in bond funds at the Vanguard Group, says that "1995 will be the year of the coupon." He may well be correct. ■

When the mob vows "never again!" the shrewd investor gets interested. So it is with bonds now.

The "never again" syndrome

By Mary Beth Grover and Jason Zweig



Vanguard bond baron Ian MacKinnon

Lower costs, higher returns.

YOU THINK 1994 was a rough year in the bond market? You should have been around in 1979, says Ian MacKinnon, who oversees \$26 billion in bonds for the Valley Forge, Pa.-based Vanguard Group. "The worst bond markets I've ever seen were between 1979 and 1981," he says. "The bleeding was more arterial back then and it lasted a lot longer."

Powered by rising oil prices and a frightening climb in inflation, all coupled with upward pressure on interest rates by an inflation-spooked Federal Reserve, the yield on long Treasuries went, in that brief two-year span, from 8% to 15%. "That was when people said, 'I'm never going to buy a bond or a bond fund again,'" recalls MacKinnon. "And they probably made their New Year's resolution on the eve of the greatest bull market in bonds we've seen before or since."

Obviously 1994 is not 1981, but MacKinnon's point is well taken: The time to buy is when all your friends and relatives are convinced that what you are buying is poison.

In managing bonds, MacKinnon likes to play the yield curve, up to a point. That is, he shortens maturities a bit if he thinks interest rates will rise, lengthens them if he thinks rates are headed down. He sometimes uses those dreaded derivatives, trading futures contracts to take advantage of short-term discrepancies in the yield relationship between municipal bonds and Treasuries.

MacKinnon also switches assets from market sectors that seem overpriced to those that seem underpriced. One sector he thinks is now underpriced: BBB-rated corporate bonds. "In both recessions and recoveries," says MacKinnon, "the BBB sector provides much more in income than you lose in defaults." Over the past 20 years, MacKinnon figures, BBB-rated corporates returned 2.3 percentage points annually more than Treasuries of comparable maturity, with less risk than lower-grade pure junk bonds.

MacKinnon is now so bullish that Vanguard's long-term Treasury fund he has upped his average duration (a measure of interest rate risk) by a year, to 10 years. That indicates a risk comparable to that of a zero coupon Treasury due in 10 years; it

Vanguard's costs, one-tenth those of the operators below, give it a head start on performance.

Going to extremes

Fund	—Total return—		Annual expenses per \$100
	last 12 months	annual average 12/89 to 12/94	

Low-maintenance

Vanguard Total Bond Market	-2.7%	7.5%	\$0.18
Vanguard New York Insured T-F	-5.6	6.9	0.19
Vanguard Calif T-F-Insured L-T	-5.7	6.6	0.19
Vanguard Muni Bond-Insured L-T	-5.9	6.9	0.20
Vanguard Penn Tax-Free-Insured L-T	-4.5	7.2	0.20

High-maintenance

Venture Muni (+) Plus	2.3	6.6	2.07
Hancock High Yield Tax Free-A	-5.0	6.4	2.06
New York Muni Fund	-20.5	2.8	2.05
Hancock Govt Income-A	-5.3	5.7	2.01
Keystone Custodian B-1	-5.1	5.6	1.94

also means the fund will rise or fall about 10% on a one-percentage-point shift in rates. You get this much risk in a portfolio of full-coupon Treasuries with an average maturity of 23 years.

But intermediate-term Treasuries also look nice. "You get the yield of a long bond without having to take all the risk," says MacKinnon. Ten-year Treasuries, for example, yield 7.8%, almost dead-on with the long bond. If interest rates rise one percentage point, the long bond will have a negative 4% total return. But the ten-year will break even.

So why does MacKinnon even bother with the longer Treasuries? Because interest rates could go the other way. If they fall a percentage point, the long Treasury will have a total return of 19%; the ten-year Treasury, only 15%.

MacKinnon is very bullish on long munis. "We expect to see \$50 billion to \$100 billion of bonds simply disappear this year," he says. "That's pretty

bullish for munis." MacKinnon recalls that ten years ago \$200 billion of bonds hit the market with coupons ranging from 9% to 10%. Many have since been refunded, but this year the call protection expires on those that remain outstanding. Result? A sharp shrinkage of supply, which should boost prices.

If you choose muni bonds, do what MacKinnon does: Get a portfolio with a healthy dose of bonds trading well below par. Although there can be a slight tax disadvantage to such munis, they are much better positioned to participate in a rally. Bonds already trading at par or above are likely to be called away if bond prices rebound.

In the ratings of mutual funds that begin on page 134 (our larger annual survey appears in August), we have added information about annual expense burdens. This is an important number for any kind of fund but is particularly important for a bond fund. Keep an eye on it.

A handful of expensive bond funds are good. They earn their keep by delivering excellent results. Fidelity's Capital & Income Fund, a junk fund that gets actively involved in reorganizations of companies whose debt it buys, is a case in point. Unfortunately, an awful lot of expensive bond funds are merely expensive. Stay away from them. Their fees will eat up too much of your income.

The time to buy is when all your friends and relatives are convinced that what you are buying is poison.

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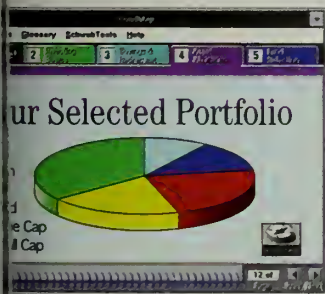
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	\$	%
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Twentieth Century	7,000	20.0
Janus Funds	7,000	20.0
Strong Funds	5,500	15.7
Berger Funds	5,000	14.3
Total Allocation		

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Best Buys

The funds recommended here deliver good risk-adjusted performance without exorbitant fees and sales commissions. We define costs as a fund's annual expense ratio, plus one-fifth of any front-end sales charge. Costs and performance are weighted equally at stock and junk bond funds, where a manager can more easily add value. But at global bond funds, we give costs twice the weight of performance; at domestic investment-grade bond funds and all municipal bond funds, we weight costs 3-to-1 over performance. Winning funds are listed in descending order of their composite cost/performance scores.

Stock funds

Fund	5-year annualized total return	Annual expenses per \$100	Maximum sales charge	Assets 11/30/94 (\$mil)	Minimum initial investment	Performance UP DOWN —markets—	Weighted average P/E	Median market cap (\$bil)	Risk level
U.S. stock									
Lindner Dividend Fund	9.9%	\$0.64	none	\$1,630	\$2,000	D A	15.0	\$13.3	very low
Vanguard Special-Health Care	15.5	0.19	none	693	3,000	A A	19.2	8.8	high
Mutual Series Fund-Beacon	11.5	0.73	none	2,018	5,000	B B	12.6	5.7	very low
Mutual Series Fund-Qualified	11.6	0.78	none	1,766	1,000	B A+	11.5	6.1	low
Mutual Series Fund-Mutual Shares	10.8	0.74	none	3,713	5,000	B A+	11.5	6.7	low
William Blair Mutual Funds-Growth Fund	13.2	0.78	none	177	1,000	B C	26.7	3.5	average
Vanguard/Primecap Fund	13.0	0.67	none	1,472	10,000	B D	19.4	7.1	high
20th Century Gifttrust Investors	21.8	1.00	none	262	250	A+ D	29.4	0.6	very high
Invesco Strategic-Financial Services	18.0	1.03	none	240	1,000	A C	9.2	8.8	high
20th Century Ultra Investors	19.4	1.00	none	9,733	— ¹	A+ D	29.0	5.8	very high

U.S. balanced

Dodge & Cox Balanced Fund	9.8	0.60	none	708	2,500	A C	14.8	13.6	average
Vanguard/Wellesley Income Fund	8.4	0.33	none	5,711	3,000	C A	15.9	13.5	low
Fidelity Puritan Fund	10.7	0.79	2.00% ²	11,532	2,500	A+ B	16.5	7.0	average
Franklin Income Fund	10.9	0.54	4.25	4,882	100	C B	13.8	10.2	average
CGM Mutual Fund	10.7	0.93	none	1,054	2,500	A+ D	12.2	9.7	very high
SteinRoe Total Return Fund	8.1	0.83	none	216	2,500	C F	17.1	20.4	average
Vanguard/Wellington Fund	7.9	0.34	none	8,638	3,000	B C	16.5	17.1	high
Founders Balanced Fund	8.1	1.34	none	99	1,000	C A	17.9	9.1	average
Strong Investment Fund	7.4	1.20	none	250	250	F A	16.9	11.4	low

Foreign stock

T Rowe Price International Stock Fund	7.2	1.01	none	5,982	2,500	B B	28.0	6.8	average
Vanguard International Growth Portfolio	4.8	0.46	none	2,947	3,000	B C	27.0	7.9	average
Schroder Capital-International Equity	5.2	0.91	none	174	2,500	B C	34.0	5.3	average
Scudder International Fund	5.6	1.21	none	2,300	1,000	C B	32.0	6.3	average
Lexington Worldwide Emerging Mkts Fund	9.1	1.64	none	332	1,000	D A	15.8	7.8	high
Fidelity International Growth & Income	5.8	1.52	none	1,307	2,500	D B	32.0	6.0	low
Vanguard/Trustees' Equity-International	3.9	0.40	none	1,110	10,000	B C	28.0	3.3	average
Nomura Pacific Basin Fund	3.9	1.39	none	55	1,000	B D	38.0	6.9	high

Global stock

Scudder Global Fund	7.6	1.45	none	1,131	1,000	A C	27.0	7.7	low
New Perspective Fund	10.3	0.84	5.75	6,415	250	B A	24.0	10.9	average
USAA Investment-Cornerstone Fund	6.6	1.11	none	820	1,000	C B	24.0	4.3	very low
Vanguard Special-Gold & Prec Metals	4.2	0.26	none	637	3,000	C B	38.0	1.0	high
Dreyfus Global Growth	6.4	1.37	3.00	137	2,500	C A	29.0	2.1	very low
Lexington Global Fund	4.5	1.49	none	73	1,000	B C	25.0	3.8	average
United Services-World Gold Fund	0.9	1.53	— ³	180	1,000	D D	45.0	0.7	very high
Lexington Goldfund	0.5	1.63	none	151	1,000	D B	39.0	1.2	high

\$Distributor may impose redemption fee, with proceeds reverting to other fund shareholders. ¹An automatic monthly investment plan is required for investments less than \$2,500. ²Sales charge waived through 12/31/95. ³\$10 account closing fee. Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.

Bond funds

Fund	5-year annualized total return	SEC yield	Annual expenses per \$100	Maximum sales charge	Assets 11/30/94 (\$mil)	Minimum initial investment	Performance UP DOWN —markets—	Weighted average maturity (years)	Risk level
Taxable—U.S. Treasury									
Benham Target Maturities—2000	10.6%	7.4%	\$0.60	none	\$251	\$1,000	A+ F	6.4	very high
Benham Treasury Note Fund	6.9	6.9	0.51	none	302	1,000	C B	3.3	low
Vanguard Fixed Inc—L-T US Treasury	7.4	8.0	0.26	none	634	3,000	A+ F	21.4	high
Taxable—Ginnie Mae									
Vanguard Fixed Income—GNMA	7.6	7.6	0.28	none	5,804	3,000	C B	4.5	average
Benham GNMA Income	7.5	7.7	0.54	none	963	1,000	C B	6.7	average
AARP Inc Trust—GNMA & US Treasury	6.9	6.8	0.70	none	5,336	500	D B	6.0	low
Taxable—junk									
Fidelity Capital & Income Fund	13.6	8.1	0.97	none\$	2,189	2,500	B B	6.6	low
Merrill Lynch Corp—High Income-A	12.9	11.0	0.55	4.00%	3,109	1,000	C A	9.3	average
Northeast Investors Trust	11.2	10.4	1.21	none	537	1,000	C B	7.2	low
Taxable—short-term									
Vanguard Fixed Inc—Short-Term Corp	7.2	7.4	0.26	none	3,050	3,000	D A	2.5	average
Bernstein Short Duration Plus	6.5	6.6	0.66	none	516	25,000	D A	3.5	low
Scudder Short Term Bond Fund	6.8	7.2	0.68	none	2,303	1,000	D A	3.0	average
Taxable—medium-term									
Fidelity Intermediate Bond Fund	7.5	6.7	0.64	none	2,105	2,500	C B	7.9	low
Vanguard Total Bond Market Fund	7.4	7.8	0.18	— ¹	1,728	3,000	B C	9.1	average
Columbia Fixed Income Securities	7.8	7.6	0.66	none	253	1,000	B C	8.0	average
Taxable—long-term									
Vanguard Fixed Inc—Long Term Corp	8.8	8.5	0.30	none	2,539	3,000	A+ D	17.4	very high
USAA Mutual—Income Fund	7.7	7.7	0.41	none	1,615	1,000	A D	10.9	average
Dodge & Cox Income Fund	8.1	NA	0.60	none	194	2,500	A C	10.5	average
Municipal—short-term									
Vanguard Muni Bond—Limited Term	5.8	4.8	0.20	none	1,712	3,000	D A+	2.9	average
Vanguard Muni Bond—Short-Term	4.8	4.2	0.20	none	1,544	3,000	F A+	1.2	low
USAA Tax-Exempt Fund—Short-Term	5.1	4.7	0.43	none	863	3,000	F A+	2.6	average
Municipal—medium-term									
Vanguard Muni Bond—Intermediate	7.4	5.8	0.20	none	4,656	3,000	B C	6.7	high
USAA Tax-Exempt Fund—Intermediate	6.6	5.9	0.40	none	1,419	3,000	D B	8.8	average
Scudder Medium Term Tax-Free	6.8	5.2	0.14a	none	739	1,000	D A	7.2	average
Municipal—long-term									
Vanguard Muni Bond—High Yield	7.4	6.9	0.20	none	1,585	3,000	A+ F	11.2	high
Vanguard Muni Bond—Long-Term	7.2	6.6	0.20	none	910	3,000	A+ F	12.4	very high
Vanguard Muni Bond—Insured L-T	6.9	6.5	0.20	none	1,743	3,000	A+ F	12.0	very high
Municipal—one-state									
Benham Calif Tax-Free Intermediate	6.2	5.4	0.48	none	407	1,000	D A	8.2	very low
Fidelity Mass Tax-Free—High Yield	6.7	6.7	0.54	none	1,006	2,500	C B	20.1	low
Vanguard New York Insured Tax-Free	6.9	6.3	0.19	none	695	3,000	A D	19.5	high

\$Distributor may impose redemption fee, with proceeds reverting to other fund shareholders. a: Net of absorption of expenses by fund sponsor.

¹Annual \$10 maintenance fee. NA: Not available. Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.

Stock and balanced funds

Nineteen-ninety-four was the year when a lot of first-time investors learned that stock markets fluctuate. The average domestic equity fund fell by 1.5%. Balanced funds, which counterweight stocks with bonds, usually do better in bad markets—but not in 1994, when they lost an average of 3.4%. Utility funds, which usually offer some downmarket protection, were off by as much as 19%, victims of rising interest rates. Precious metals funds got tarnished, losing up to 28%. As developing markets like Mexico and Hong Kong dropped like stones, even Templeton Emerging Markets, the best long-term performer in its field, lost 10% of its net asset value.

But 1994 was a bump, not a crash. Experienced investors have seen a lot worse. The price/earnings ratio on the Standard & Poor's 500 stock index remains historically high at 17; the dividend yield is historically low at 2.9%. The wise investor therefore will decide to err a bit on the side of caution. In mutual funds this means sticking with

those that have good downmarket grades and low expenses. A fund with a downmarket grade of C or below is not the place to be in a bear market, while one with outlandish expenses (over 1.5% for domestic funds, over 2% for foreign) has to outperform its cheaper peers just to match their returns.

We compare domestic stock funds against the S&P 500; our three up-and-down market cycles begin June 30, 1983. Balanced funds are measured against a 50-50 blend of the S&P and the Merrill Lynch corporate/government bond index, with the cycles beginning Nov. 30, 1980. The benchmark for foreign funds is the Morgan Stanley Capital International EAFE index of European and Pacific stocks, dating back to Mar. 31, 1984; global funds are matched against a 50-50 combination of the EAFE and S&P indexes. A stock fund needs at least \$25 million in assets and a performance record through two up-and-down market cycles to be listed here.

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
AARP Growth-Capital Growth*	C D	-10.0%	\$1.05
AARP Growth-Growth & Income*	D A	3.1	0.84
ABT Growth & Income Trust	D C	-4.0	1.06
ABT Invest-Emerging Growth	A D	-9.3	1.31
ABT Utility Income	F A+	-11.7	1.09
Acorn Fund‡	A C	-7.4	0.65
Adams Express†	D A	-1.2	0.36
Addison Capital Shares	D C	-6.7	1.93
Advantage Growth Fund	D B	-7.7	2.04
Advantage Special Fund	A C	-4.9	2.34
Affiliated Fund	C B	3.9	0.63
AIM Aggressive Growth‡	A+ D	17.2	1.00
AIM Balanced Fund-A (B)	C D	-5.4	2.07
AIM Equity-Charter	C B	-4.2	1.17
AIM Equity-Constellation	A+ F	1.3	1.20
AIM Equity-Weingarten	B D	-0.3	1.10
AIM Growth Fund-A	D C	-5.0	1.17
AIM Summit Fund‡	B D	-2.8	0.79
AIM Value Fund-A	A C	3.3	1.09
Alger Fund-Growth	B C	-1.6	2.20
Alliance Counterpoint Fund-A	D B	-1.9	1.94
Alliance Fund-A	B D	-2.5	1.01
Alliance Global Small Cap-A (G)	C D	-4.5	2.53
Alliance Growth & Income-A	D B	-4.2	1.07
Alliance International Fund-A (F)	B C	5.7	1.90
Alliance Quasar Fund-A	B D	-7.3	1.65
Alliance Strategic Balanced-A (B)	C C	-5.8	1.35
Alliance Technology Fund-A	A+ F	28.5	1.73
Charles Allmon Trust†	F A	-0.1	1.35
Amcap Fund	B C	-0.3	0.72
American Balanced Fund (B)	B B	0.3	0.71
American Capital Comstock Fund-A	D B	-3.6	0.96

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
American Capital Convertible Secs† (B)	D B	-6.1%	\$0.87
American Capital Emerging Growth-A	A D	-7.1	1.18
American Capital Enterprise Fund-A	B D	-0.2	0.99
American Capital Equity Income-A (B)	B B	-1.9	1.06
American Capital Growth & Income	C B	-1.5	1.16
American Capital Harbor-A (B)	C D	-6.3	1.02
American Capital Pace-A	D B	-3.7	1.02
American Growth Fund	D A	-4.0	1.34
American Leaders Fund-A	C A	0.1	1.18
American Mutual Fund	D A	0.3	0.59
American National Growth	D D	4.4	1.00
American National Income	D A	-0.6	1.17
Amway Mutual Fund	C C	-5.9	1.10
Analytic Optioned Equity*	F A+	2.5	1.07
API Trust-Growth	B D	-2.9	2.24
Ariel Growth Fund‡	B D	-4.2	1.16
ASA Limited† (F)	C D	0.9	0.52
Asia Pacific Fund† (F)	A A	-20.0	2.37
Babson Enterprise Fund‡	A D	2.5	1.09
Babson Growth Fund*	C C	-0.5	0.86
Babson Value Fund*	B D	2.5	1.00
Baird Blue Chip	B A	4.7	1.40
Baird Capital Development	B D	-0.3	1.40
Baker, Fentress & Co†	D C	-5.9	0.83
Bancroft Convertible Fund† (B)	D D	-3.0	1.18
Bartlett Basic Value*	D A	0.4	1.20
Berger One Hundred Fund	A D	-6.7	1.69
Berger One Hundred and One Fund	C B	-9.1	2.10
Bergstrom Capital†	A A+	5.5	0.81
Berwyn Fund	A D	3.9	1.37
Wm Blair-Growth*	B C	6.5	0.78
Blanchard Global Growth (G)	C A	-7.5	2.61

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (B): Balanced. (F): Foreign. (G): Global. Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.

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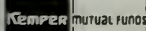
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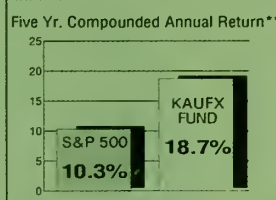
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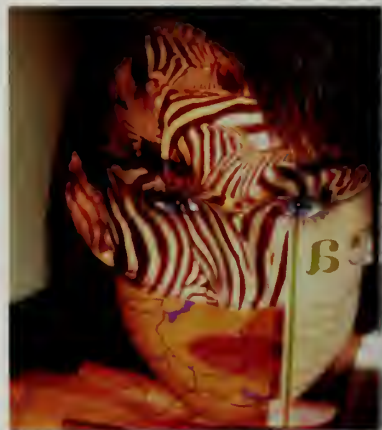
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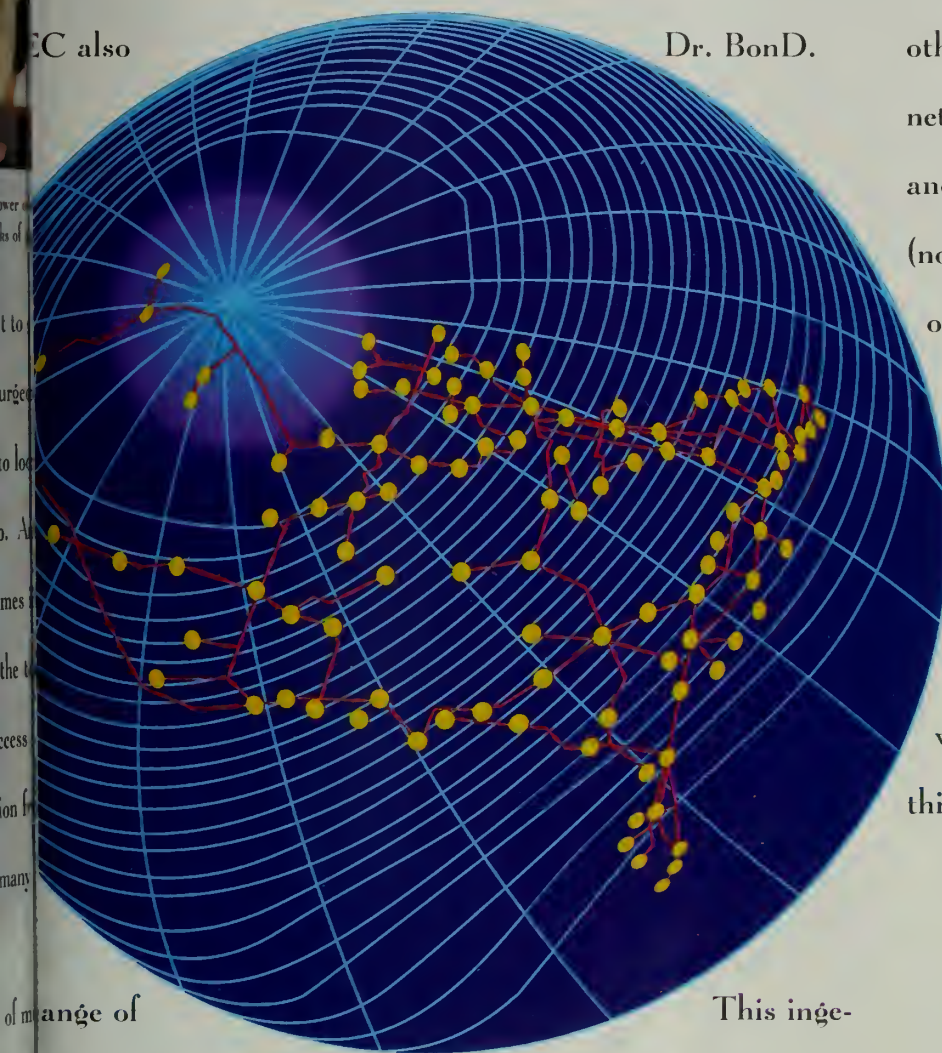
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STOCK AND BALANCED FUNDS

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100	Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Blue Chip Value†	D D	0.0	\$1.28	Dreyfus Third Century*	D B	-7.5%	\$1.17
Brandywine Fund*	A D	0.0	1.10	EV Growth Fund	D C	-4.4	0.95
Bull & Bear Gold Investors (G)	D C	-13.8%	2.57	EV Special Equities	D D	-9.6	1.01
Bull & Bear Special Equities	D D	-16.5	2.74	EV Stock Fund	D A	-4.2	0.96
Burnham Fund	D A+	-1.9	1.50	EV Traditional Investors (B)	C C	-1.8	0.90
Calvert Social Inv—Mngd Growth-A (B)	C D	-4.7	1.25	EV Traditional Total Return	D A+	-12.3	1.31
Capital Income Builder	D A	-2.3	0.72	EBI Equity Fund	C B	2.7	2.25
Capstone Growth Fund	D C	-7.8	1.24	Eclipse Financial Asset—Equity*	C A	-4.7	1.12
Cardinal Fund	D B	-3.1	0.68	Enterprise Group—Growth	C C	-1.0	1.60
Castle Convertible Fund† (B)	C A	-1.6	1.05	EuroPacific Growth Fund (F)	C A	1.1	0.99
Central Securities†	A C	7.6	0.77	Evergreen Fund*	C C	0.7	1.12
Century Shares Trust*	B B	-3.9	0.82	Evergreen Growth & Income*	B B	1.7	1.26
CGM Capital Development‡	A+ D	-22.9	0.85	Evergreen Limited Market*	B B	-10.5	1.26
CGM Mutual Fund* (B)	A+ D	-9.7	0.93	Evergreen Total Return*	D A	-6.4	1.18
Clemente Global Growth† (G)	B C	-5.2	1.68	FAM Value Fund*	B C	6.8	1.39
Clipper Fund*	C A	-2.4	1.11	FBL—Growth Common Stock	D B	-4.8	1.60
Colonial Fund-A (B)	A D	-2.1	1.10	Federated Growth Trust*	C C	-11.9	0.96
Colonial Growth Shares Trust-A	B D	-2.6	1.19	Federated Stock Trust*	C A	-0.4	0.97
Colonial Natural Resources-A (G)	D C	-0.9	1.88	Fidelity Advisor Strategic Oppors-A	C A	-7.1	1.57
Colonial Small Stock-A	C D	6.3	1.56	Fidelity Capital Appreciation	B C	2.5	0.86
Colonial Strategic Income-A (B)	D D	-3.6	1.19	Fidelity Contrafund	A D	-1.1	1.06
Colonial Utilities Fund-A (B)	F B	-10.7	1.19	Fidelity Destiny Portfolio I‡	A C	4.4	0.70
Columbia Growth Fund*	B C	-0.6	0.82	Fidelity Destiny Portfolio II‡	A D	4.5	0.80
Columbia Special Fund*	A F	2.3	1.12	Fidelity Equity-Income	B B	0.4	0.66
Common Sense—Growth	C C	-2.3	1.14	Fidelity Europe Fund (F)	C B	6.3	1.25
Common Sense—Growth & Income	D B	-3.2	1.05	Fidelity Fund*	C B	2.6	0.65
Composite Bond & Stock-A (B)	D C	-2.1	1.06	Fidelity Growth & Income	B B	2.3	0.82
Composite Growth-A	D B	2.6	1.10	Fidelity Growth Company	A D	-2.2	1.07
Composite Northwest 50 Fund-A	B D	-1.4	1.09	Fidelity Intl Growth & Income* (F)	D B	-2.9	1.52
Connecticut Mutual—Growth	B C	-0.6	1.05	Fidelity Magellan Fund	A C	-1.8	0.99
Copley Fund*	F A+	-7.7	1.51	Fidelity OTC Portfolio	B C	-2.7	0.88
Counsellors Tandem Securities†	D B	-18.9	1.27	Fidelity Overseas Fund (F)	C C	1.3	1.27
Cowen Income + Growth-A	D A	-6.1	1.26	Fidelity Pacific Basin (F)	C D	-2.8	1.59
Dean Witter American Value	B C	-6.7	1.61	Fidelity Puritan Fund (B)	A+ B	1.8	0.79
Dean Witter Developing Growth Secs	B D	-4.6	1.78	Fidelity Real Estate Investment*	C A	2.1	1.13
Dean Witter Dividend Growth Secs	C A	-3.2	1.37	Fidelity Retirement Growth*	A C	0.0	1.05
Dean Witter Natural Resource Devel	D C	-0.8	1.91	Fidelity Select—American Gold (G)	C A	-15.5	1.49
Dean Witter World Wide Invest (G)	C C	-7.1	2.40	Fidelity Select—Automotive	A D	-12.7	1.68
Delaware Group Decatur Income	C B	-0.8	0.71	Fidelity Select—Biotechnology	B A	-18.2	1.61
Delaware Group Decatur Total Return	D B	-0.5	1.22	Fidelity Select—Chemicals	B C	14.7	1.93
Delaware Group Delcap Fund I	B D	-5.3	1.30	Fidelity Select—Computers	A D	20.5	1.89
Delaware Group Trend	A+ F	-10.0	1.37	Fidelity Select—Energy	F A	0.4	1.66
Delaware Group Value	B C	-7.0	1.64	Fidelity Select—Energy Service	F D	0.4	1.65
Dodge & Cox Balanced Fund* (B)	A C	2.1	0.60	Fidelity Select—Financial Services	A+ D	-3.6	1.63
Dodge & Cox Stock Fund*	B B	5.3	0.62	Fidelity Select—Food & Agriculture	B A	6.1	1.64
Dreyfus Appreciation Fund	C B	3.6	1.07	Fidelity Select—Health Care	A C	21.4	1.55
Dreyfus Capital Growth	C A	-7.0	1.06	Fidelity Select—Home Finance *	A D	2.6	1.58
Dreyfus Capital Value-A	F A	-3.9	1.68	Fidelity Select—Industrial Materials	B D	8.2	2.08
Dreyfus Fund*	D A	-4.2	0.74	Fidelity Select—Leisure	A D	-6.8	1.53
Dreyfus Global Growth (G)	C A	-7.5	1.37	Fidelity Select—Medical Delivery	A B	19.8	1.79
Dreyfus Growth Opportunity*	D C	-6.3	1.09	Fidelity Select—Paper & Forest Prods	B D	14.1	2.07
Dreyfus/Laurel Core Value—Inv	C B	0.4	1.15	Fidelity Select—Prec Metals & Mins (F)	D D	-1.1	1.55
Dreyfus/Laurel Special Growth—Inv	C C	-18.3	1.73	Fidelity Select—Retailing	A F	-5.0	1.83
Dreyfus New Leaders	B D	-0.1	1.22	Fidelity Select—Software & Computer	A D	0.3	1.57
Dreyfus Strategic Growth	D A	3.1	1.62	Fidelity Select—Technology	A F	11.0	1.54
Dreyfus Strategic Investing-A	F A	-11.4	1.74	Fidelity Select—Telecommunications	A B	4.3	1.53

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (B): Balanced. (F): Foreign. (G): Global. Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesnerberger.

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Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100	Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100
Fidelity Select-Utilities	D A+	-7.5%	\$1.35	Hancock Growth & Inc-A (B)	D C	-8.5%	\$1.31
Fidelity Trend Fund*	B D	-6.7	0.92	Hancock Growth Fund-A	C C	-7.5	1.56
Fidelity Value Fund*	B D	7.6	1.11	Hancock Sovereign Achievers-A	D C	-5.5	1.60
Fiduciary Capital Growth*	B D	0.4	1.20	Hancock Sovereign Investors-A	D A	-1.9	1.10
First Australia Fund† (F)	B C	2.4	1.87	Hancock Special Equities-A†	A D	2.0	1.84
First Eagle Fund of America	B B	-2.6	2.90	H&Q Healthcare Investors†	C B	-13.2	1.84
First Financial Fund†	A D	8.9	1.36	Harbor Growth Fund*	C D	-11.4	0.90
First Investors Global Fund (G)	C D	-3.8	1.87	Heartland Group-Value	A D	1.7	1.51
First Union-Value-B	D B	2.0	0.99	Heritage Capital Appreciation	C B	-2.4	1.55
Flag Investors Telephone Income-A	C A	-6.3	0.92	Hotchkis & Wiley-Equity Income*	C C	-3.5	1.00
Fortis Capital Fund	B C	2.5	1.21	Wayne Hummer Growth Fund*	D B	-0.9	1.07
Fortis Fiduciary Fund	B D	3.4	1.45	IAA Trust Growth	D C	0.3	1.24
Fortis Growth Fund	A D	-8.2	1.09	IAI Growth & Income	D B	-4.7	1.25
Fortress Utility Fund	D A	-7.9	1.11	IAI International Fund (F)	B C	0.4	1.74
Founders Balanced Fund (B)	C A	-1.9	1.34	IAI Regional Fund	B B	0.7	1.25
Founders Blue Chip	C B	0.5	1.22	IAI Value Fund	D C	-9.1	1.25
Founders Growth Fund	B D	-3.3	1.32	IDEX Fund	C B	-7.6	1.28
Founders Special Fund	A D	-4.9	1.33	IDEX II Growth-A	C B	-8.3	1.61
FPA Capital Fund	A+ D	10.0	1.03	IDEX Fund 3†	C B	-7.7	1.24
FPA Paramount Fund‡	B A	8.7	0.90	IDS Discovery Fund	C D	-7.8	0.97
FPA Perennial Fund	D A	-0.1	1.02	IDS Equity Plus	C C	-8.0	0.77
Franklin DynaTech Fund	D C	5.2	0.81	IDS Growth Fund	A D	2.9	0.83
Franklin Equity Fund	C C	-1.3	0.79	IDS International Fund (F)	C C	-2.2	1.47
Franklin Gold Fund (F)	D D	-4.7	0.81	IDS Managed Retirement	C B	-4.6	0.83
Franklin Growth Fund	D B	2.9	0.64	IDS Mutual Fund (B)	B C	-3.0	0.79
Franklin Income Fund (B)	C B	-6.3	0.54	IDS New Dimensions	B C	-3.0	0.92
Franklin Rising Dividends	D A	-5.1	1.43	IDS Precious Metals (F)	C D	-9.6	1.51
Franklin Utilities Fund	F A+	-11.6	0.55	IDS Progressive Fund	C C	1.4	1.09
Fundamental Investors Fund	B B	1.3	0.65	IDS Stock Fund	C A	-2.9	0.73
Gabelli Asset Fund	C A	-0.2	1.31	IDS Strategy-Aggressive Equity	B D	-6.9	1.71
Gabelli Equity Trust†	C B	0.6	1.20	IDS Strategy-Equity	C B	-3.3	1.56
GAM International Fund (F)	B A	-10.0	1.99	IDS Strategy-Worldwide Growth (F)	D C	-2.7	2.45
GAM Pacific Basin (F)	A B	7.1	1.93	Income Fund of America (B)	B A+	-2.5	0.63
Gateway Index Plus*	D A	5.6	1.11	International Equity Fund-A (F)	C C	0.5	1.60
General American Investors†	B C	-3.9	1.16	Invesco Dynamics Fund	A D	-1.9	1.17
General Securities	D A	5.4	1.31	Invesco Growth Fund	C D	-8.8	1.03
Germany Fund† (F)	C C	6.4	1.36	Invesco Industrial Income	B A	-3.9	0.92
Gintel Erisa Fund*	F A	-21.3	2.20	Invesco Intl-European* (F)	D B	-3.0	1.28
Gintel Fund*	D B	-16.5	2.20	Invesco Intl-Pacific Basin* (F)	A C	4.7	1.22
GIT Equity Trust-Special Growth*	C C	-4.1	1.45	Invesco Strategic-Energy*	F B	-7.3	1.18
Gradison-McDonald Estab Value	C B	0.3	1.22	Invesco Strategic-Financial Services*	A C	-5.9	1.03
Gradison-McDonald Oppor Value	B C	-2.2	1.38	Invesco Strategic-Gold* (G)	F D	-27.9	1.03
Greenspring Fund*	D A	2.9	1.31	Invesco Strategic-Health Sciences*	A C	0.9	1.16
Growth Fund of America	B C	0.0	0.78	Invesco Strategic-Leisure*	A+ D	-5.0	1.14
Growth Fund of Washington	D C	-9.3	1.55	Invesco Strategic-Technology*	A+ F	5.3	1.13
GT Europe Growth-A (F)	C D	-5.8	1.90	Invesco Strategic-Utilities*	D A	-9.9	1.06
GT Global New Pacific Growth-A (F)	B B	-19.7	1.90	Investment Co of America	C A	0.2	0.59
GT International Growth-A (F)	C C	-7.8	1.80	Investors Research Fund	F C	-4.0	1.47
GT Japan Growth-A (F)	A F	6.6	2.10	Italy Fund† (F)	D D	2.9	1.69
GT Worldwide Growth-A (G)	B C	-6.7	1.90	Ivy Growth Fund	D A	-3.0	1.33
Guardian Park Avenue	A B	-1.4	0.81	Ivy Growth with Income	C B	-1.9	2.14
Hancock Capital Growth-A	D D	-11.3	1.46	Ivy International Fund-A (F)	B B	3.9	1.61
Hancock Freedom Global-A (G)	B F	-4.9	2.12	Janus Fund*	C A	-1.1	0.92
Hancock Freedom Global Tech-A	B D	9.6	2.10	Janus Twenty Fund‡	B C	-6.7	1.05
Hancock Freedom Natl Aviation & Tech	D D	-14.2	1.49	Janus Venture Fund‡	B A	5.5	0.97
Hancock Freedom Regional Bank-A	A C	0.5	1.35	Japan Fund* (F)	C C	10.0	1.25

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (B): Balanced. (F): Foreign. (G): Global.
Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.

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STOCK AND BALANCED FUNDS

Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100	Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100
Jefferson-Pilot Capital Appreciation	D B	-4.7%	\$0.84	Meridian Fund*	A D	0.6%	\$1.22
Kaufmann Fund	A F	9.0	2.53	Merrill Lynch Basic Value-A	B B	2.0	0.53
Kemper Growth Fund-A	C C	-5.9	1.00	Merrill Lynch Capital-A	C A	0.9	0.53
Kemper International Fund-A (F)	C B	-4.0	1.69	Merrill Lynch EuroFund-A (F)	C B	4.3	1.04
Kemper Small Cap Equity-A	B D	-3.3	1.03	Merrill Lynch Fund for Tomorrow-A	D B	-7.5	0.88
Kemper Technology Fund-A	B C	11.4	0.81	Merrill Lynch Global Holdings-A (G)	C B	-3.3	1.43
Kemper Total Return-A (B)	B D	-9.2	1.02	Merrill Lynch Global Resources-A	F A	1.2	0.92
Keystone America Hartwell Emerg-A	A F	-1.0	1.60	Merrill Lynch Growth Inv & Retire-A	A C	1.8	0.90
Keystone America Omega-A	B C	-5.7	1.51	Merrill Lynch Healthcare Fund-A (G)	D C	-4.3	1.55
Keystone America Total Return-A	D A	-4.0	1.85	Merrill Lynch Pacific Fund-A (F)	A B	2.9	0.90
Keystone Custodian K-1 (B)	D C	-4.7	1.71	Merrill Lynch Phoenix-A (B)	B C	-6.5	1.22
Keystone Custodian K-2	C D	-3.0	1.83	Merrill Lynch Special Value-A	B D	3.8	1.17
Keystone Custodian S-1	D B	-5.9	2.07	Merrill Lynch Technology-A (G)	A+	26.6	1.35
Keystone Custodian S-3	C D	-4.7	1.35	MetLife-State Street Cap Apprec-A	A D	-2.5	1.50
Keystone Custodian S-4	A F	0.1	1.73	MetLife-State Street Equity Inc-A	D B	-4.9	1.50
Keystone International Fund (F)	F C	-6.2	2.94	MetLife State Street Equity Inv-A	D C	-4.9	1.50
Keystone Precious Metals (F)	D C	-13.3	2.34	Mexico Fund† (F)	A A+	-43.4	1.08
Kidder, Peabody Equity Income-A	D A	-4.6	1.35	MFS Capital Growth-A	D C	0.5	2.15
Korea Fund† (F)	A D	25.0	1.52	MFS Emerging Growth-A‡	A F	4.8	1.19
Landmark Equity Fund	D D	-0.4	1.07	MFS Growth Opportunities-A	D D	-4.2	0.84
Legg Mason Special Investment	B C	-13.1	1.94	MFS Managed Sectors-A	C D	-2.9	1.52
Legg Mason Total Return	C C	-7.2	1.94	MFS Research Fund-A	B C	0.0	0.91
Legg Mason Value Trust	C B	1.4	1.82	MFS Total Return-A (B)	A C	-2.6	0.85
Lexington Corp Leaders*	C A	-0.8	0.57	MFS Value Fund-A	B D	-2.5	1.42
Lexington Global Fund* (G)	B C	1.8	1.49	MFS World Equity-A (G)	A B	-2.7	2.09
Lexington Goldfund (G)	D B	-7.3	1.63	MIM Stock Appreciation	B C	-10.4	2.47
Lexington Growth & Income	D C	-3.1	1.29	Mimic Investors Fund I	D B	0.7	1.31
Lexington Strategic Investments (F)	A+ F	11.3	1.76	Monetta Fund‡	B C	-6.2	1.38
Lexington Strategic Silver (G)	D A	-8.4	1.84	Morgan Grenfell SmallCap†	B F	-3.3	1.39
Lexington Worldwide Emerg Mkts* (F)	D A	-13.8	1.64	Morgan Keegan Southern Capital	D D	-4.2	2.00
Liberty All-Star Equity†	C C	-1.4	1.08	MSB Fund*	C C	-1.7	1.12
Liberty Utility Fund-A	F A	-7.8	1.12	Mutual Benefit Fund	B B	2.8	1.04
Lindner Dividend Fund*	D A	-3.3	0.64	Mutual Series Fund-Beacon*	B B	5.6	0.73
Lindner Fund*	D A	-0.7	0.65	Mutual Series Fund-Mutual Shares*	B A+	4.5	0.74
Longleaf Partners Fund*	A C	9.0	1.26	Mutual Series Fund-Qualified*	B A+	5.7	0.78
Lord Abbett Developing Growth	C F	6.2	1.34	National Industries Fund*	D B	-0.3	1.60
Lord Abbett Fundamental Value	D A	-0.9	1.28	Nationwide Fund	C B	0.6	0.62
Lord Abbett Value Appreciation	C C	-3.3	1.22	Nationwide Growth Fund	C B	1.5	0.68
Lutheran Brotherhood Fund	D A	-3.4	1.01	N & B Guardian Fund*	A C	0.6	0.80
Mackenzie American Fund-A	D B	-3.9	1.80	N & B Manhattan Fund*	B C	-3.6	0.96
MainStay-Capital Appreciation	B C	-1.5	1.80	N & B Partners Fund*	C A	-1.9	0.81
MainStay-Global Fund (G)	C B	-6.3	2.40	N & B Selected Sectors*	B B	0.9	0.85
MainStay-Value Fund	B B	-0.2	1.90	New Alternatives Fund	F C	-3.7	1.11
Mairs & Power Growth Fund*	A C	5.7	0.98	New Economy Fund	A C	-8.1	0.85
Malaysia Fund† (F)	A A	-25.0	1.60	New England Growth Fund‡	C C	-7.1	1.18
Managers Capital Appreciation*	B B	-1.5	1.18	New England Growth Oppors-A	C C	1.0	1.21
Managers Income Equity*	C C	1.0	1.32	New England Value Fund-A	B C	-1.4	1.34
Managers Special Equity*	A D	-2.0	1.26	New Perspective Fund (G)	B A	3.0	0.84
MAS-Equity Fund*	C B	0.5	0.59	New York Venture Fund-A	A B	-1.9	0.87
MAS-Small Capitalization Value*	A D	2.2	0.88	Nicholas-Applegate Growth Equity-A	A D	-9.5	1.42
MAS-Value Fund*	B C	3.5	0.59	Nicholas Fund*	C B	-3.0	0.78
Mutual Investors Growth Stock-A	B D	-6.7	0.71	Nicholas II*	B C	1.0	0.67
Mutual Investors Trust-A	C B	-1.0	0.68	Nicholas Limited Edition‡	B B	-3.0	0.88
Matheson Fund*	F A	-5.9	0.89	Nomura Pacific Basin* (F)	B D	4.5	1.39
Mutual Growth Fund	B D	-4.5	2.02	North American Growth Fund-A	C D	-2.2	1.99
The Investor Fund	D A	7.1	2.19	Northeast Investors Growth Fund*	C B	-0.1	1.45

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (B): Balanced. (F): Foreign. (G): Global.
Sources: Fund, Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberg.

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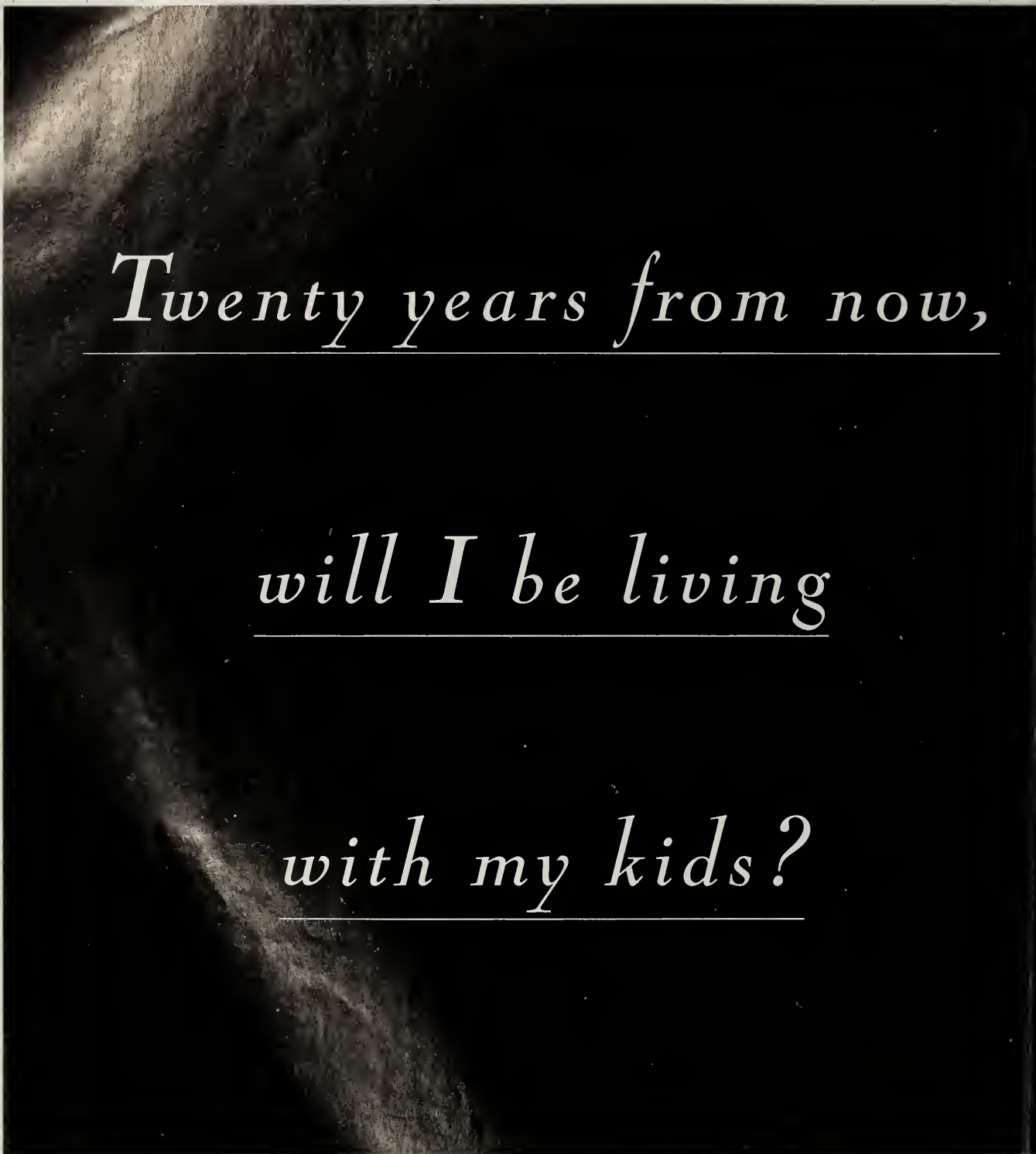
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STOCK AND BALANCED FUNDS

Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100	Fund	Performance UP DOWN -markets-	12-month total return	Annualized expenses per \$100
Oberweis Emerging Growth	A F	-3.5%	\$1.80	Princor Capital Accumulation	C B	0.2%	\$0.82
Oppenheimer Discovery Fund-A	A C	-11.2	1.27	Princor Growth Fund	A D	3.2	1.26
Oppenheimer Equity Income-A (B)	B C	-2.7	0.90	Prudential Equity Fund-A	B B	2.4	0.91
Oppenheimer Fund-A	C D	0.3	1.15	Prudential Equity Income-A	C B	0.1	1.07
Oppenheimer Global Fund-A (G)	A B	-3.1	1.15	Prudential Global Fund-A (G)	B D	-4.8	1.56
Oppenheimer Gold & Special Mins (G)	D C	-6.0	1.31	Prudential Growth Opportunity-A	B D	-3.2	1.17
Oppenheimer Special Fund-A	C C	2.4	1.07	Prudential Strategist Fund-A	D C	-6.3	1.37
Oppenheimer Target Fund-A	D D	0.5	1.07	Prudential Utility Fund-A	D A+	-7.8	0.80
Oppenheimer Time Fund	D C	-12.8	0.94	Putnam Convertible Inc-Growth-A (B)	A C	-1.9	0.96
Oppenheimer Total Return-A	B C	-7.8	0.96	Putnam Equity Income-A	D B	1.3	1.16
Pacific Horizon-Aggressive Growth	A C	-11.5	1.52	Putnam Fund for Growth & Inc-A	C A	-0.2	0.93
PaineWebber Atlas Global Growth-A (G)	B C	-12.8	1.48	George Putnam Fund of Boston-A (B)	B C	-0.4	0.95
PaineWebber Blue Chip Growth-A	D C	-4.5	1.32	Putnam Global Growth-A (G)	A C	-0.9	1.39
PaineWebber Dividend Growth-A	F A	-5.8	1.13	Putnam Health Sciences-A	B C	15.2	1.13
PaineWebber Growth Fund-A	B C	-10.9	1.22	Putnam Investors Fund-A	C C	-3.2	0.99
PaineWebber Regional Finl Growth-A	A C	-0.8	1.44	Putnam Managed Income-A	D B	-1.2	1.02
Parnassus Fund	A F	12.0	1.26	Putnam Natural Resources-A	F B	-2.8	1.18
Pasadena Growth Fund-A	B D	-3.8	1.60	Putnam New Opportunities-A	A+ D	3.4	1.23
Pax World Fund (B)	C C	2.6	0.94	Putnam OTC Emerging Growth-A	A+ D	2.2	1.16
PBHG Growth Fund*	A D	4.8	1.55	Putnam Vista Fund-A	B D	-3.8	1.09
Penn Square Mutual	C B	0.2	0.97	Putnam Voyager Fund-A	A D	0.4	1.10
Pennsylvania Mutual Fund	C B	-0.7	0.98	Quantitative Growth & Income-O	C B	-0.7	1.72
Permanent Portfolios-Permanent* (B)	D C	-2.9	1.21	Quest for Value Fund-A	C B	0.9	1.75
Petroleum & Resources Corp†	F A	-2.6	0.57	Reich & Tang Equity	C B	1.7	1.15
Philadelphia Fund	D B	-8.6	1.60	Republic-Aggressive Growth	C C	-1.5	1.52
Phoenix Balanced Fund-A (B)	C C	-4.5	0.95	Republic-Growth	D B	-0.7	1.70
Phoenix Convertible Fund-A (B)	D B	-3.8	1.15	Righttime Blue Chip	F A	2.2	2.16
Phoenix Equity Opportunities-A	C B	-5.1	1.26	Righttime Fund	F A	0.8	2.52
Phoenix Growth Fund-A	D A	-1.6	1.18	Rodney Square Multi-Manager-Growth	B C	-0.2	1.42
Phoenix Income & Growth-A (B)	B B	-6.2	1.23	Royce Fund-Value	C B	-1.6	1.84
Phoenix Total Return-A (B)	C D	-2.3	1.29	Royce Value Trust†	B C	-0.3	1.33
Phoenix US Stock-A	C B	-3.9	1.17	RPF of America-Growth Fund	C C	-8.3	2.39
Pilgrim MagnaCap Fund	C B	4.1	1.53	Safeco Equity Fund*	A C	9.9	0.94
Pilgrim Regional Bankshares†	B C	-2.6	0.91	Safeco Growth Fund*	A D	-1.6	0.91
Pilot Kleinwort Benson Intl Equity (F)	C C	-0.3	1.37	Safeco Income Fund*	D A	-1.1	0.90
Pimco Advisors-Growth-A	B B	0.0	1.10	Salomon Brothers Capital Fund*	D C	-14.3	1.31
Pimco Advisors-International-A (G)	C D	-7.4	1.40	Salomon Brothers Fund†	D C	-2.8	0.41
Pimco Advisors-Opportunity-A‡	A+ C	-4.0	1.20	Salomon Brothers Investors Fund*	C C	-1.3	0.68
Pioneer Fund	C C	-0.5	0.95	Salomon Brothers Opportunity Fund*	B B	0.8	1.22
Pioneer Growth Shares	A D	-2.6	1.20	SBSF Fund	D A	-5.6	1.15
Pioneer II	C C	-1.7	0.90	Schroder Capital-Intl Equity (F)	B C	-0.3	0.91
Pioneer Income (B)	D A	-4.3	1.06	Scudder Capital Growth*	B D	-9.9	0.96
Pioneer Three	B C	-5.6	0.86	Scudder Development Fund*	B D	-5.3	1.27
Piper Funds-Equity Strategy	C C	-2.5	1.32	Scudder Global Fund* (G)	A C	-4.2	1.45
Piper Funds-Value	C B	-3.5	1.23	Scudder Growth & Income*	C B	2.6	0.86
T Rowe Price Balanced Fund* (B)	B D	-2.0	1.00	Scudder International Fund* (F)	C B	-3.0	1.21
T Rowe Price Capital Appreciation*	C A	3.8	1.09	Scudder New Asia† (F)	A A	-12.4	1.71
T Rowe Price Equity Income*	C A	4.6	0.91	Security Equity Fund-A	B D	-2.6	1.06
T Rowe Price Growth & Income*	C C	-0.1	0.83	Security Growth & Income-A	F B	-7.8	1.26
T Rowe Price Growth Stock*	B C	0.9	0.82	Security Ultra Fund-A	B F	-6.6	1.30
T Rowe Price International Stock* (F)	B B	-0.8	1.01	SEI Index S&P 500 Index*	C C	1.0	0.25
T Rowe Price New America Growth*	A D	-7.4	1.23	Selected American Shares	B A	-3.2	1.01
T Rowe Price New Era*	D B	5.2	0.80	Selected Special Shares	C D	-2.5	1.24
T Rowe Price New Horizons*	A D	0.3	0.93	Seligman Capital Fund-A	B D	-7.1	1.13
T Rowe Price OTC Fund*	B D	0.1	1.20	Seligman Common Stock-A	B B	-1.9	0.87
Principal Preserv-S&P 100 Plus	D B	1.1	1.20	Seligman Communications & Info-A	A+ D	35.3	1.63

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STOCK AND BALANCED FUNDS

THE FUNDS

Fund	Performance UP —markets—	DOWN	12-month total return	Annualized expenses per \$100
Seligman Growth Fund-A	C	D	-3.8%	\$0.89
Seligman Income Fund-A (B)	C	A	-5.4	1.03
Sentinel Balanced Fund (B)	C	B	-3.5	1.14
Sentinel Common Stock	C	A	-1.2	0.93
Sentinel Growth Fund	D	D	-7.5	1.31
Sentry Fund*	C	C	-1.1	0.87
Sequoia Fund†	B	A+	3.4	1.00
SIFE Trust	A	C	-1.5	1.02
Sit Growth & Income*	D	B	2.8	1.10
Sit Growth Fund*	A	D	-0.5	0.82
Skyline Fund—Special Equities‡	A	D	-1.1	1.48
Smith Barney—Income & Growth-A	D	A	-4.2	0.91
SBS Aggressive Growth-A	A	D	-1.6	1.42
SBS Appreciation Fund-A	C	B	-0.8	1.03
SBS Equity—Growth & Income-A	D	C	-0.4	1.54
SBS Equity—Strategic Inv-A	D	A	-1.0	1.25
SBS Fundamental Value-A	B	B	1.4	1.30
SBS Global Opportunities-A (G)	D	D	-3.7	1.89
SBS Income—Premium Tot Ret-A	B	B	3.5	1.19
SBS Invest—Special Equities-A	B	F	-5.6	1.67
SBS Precious Metals & Minerals-A (F)	D	D	-9.6	2.18
SBS Telecommunications—Growth-A	A	D	-6.4	1.34
SoGen International Fund‡ (G)	C	A	2.5	1.28
Sound Shore Fund	C	B	0.3	1.27
Source Capital Fund†	D	A	0.6	0.95
Stagecoach Corporate Stock*	D	B	0.4	0.97
State Bond Common Stock	C	C	4.2	1.22
State Bond Diversified	D	A	0.2	1.20
State Street Investment-A	C	B	-3.5	0.49
SteinRoe Capital Opportunities*	A	F	0.0	0.97
SteinRoe Prime Equities*	C	B	-0.1	0.90
SteinRoe Special Fund*	B	C	-3.3	0.96
SteinRoe Stock Fund*	C	D	-3.8	0.94
SteinRoe Total Return* (B)	C	F	-4.1	0.83
Stock & Bond Fund-A* (B)	D	B	-1.9	1.04
Stratton Growth Fund*	D	B	6.4	1.34
Stratton Monthly Dividend Shares*	F	A+	-12.1	0.99
Strong Investment Fund* (B)	F	A	-1.5	1.20
Strong Opportunity Fund*	C	B	3.3	1.40
Strong Total Return* (B)	D	B	-1.4	1.20
SunAmerica Blue Chip Growth-A	C	D	-4.2	1.60
SunAmerica Small Cap Growth-A	A	F	4.7	1.83
Swiss Helvetia Fund† (F)	D	A	-0.4	1.50
Taiwan Fund† (F)	A	C	22.9	2.67
Templeton Emerging Markets† (G)	A	A	-9.5	1.84
Templeton Foreign Fund (F)	C	A	0.3	1.14
Templeton Growth Fund (G)	A	B	0.8	1.10
Templeton Smaller Cos Growth (G)	B	D	-4.6	1.36
Templeton World Fund (G)	B	C	0.9	1.04
Tocqueville Fund	C	B	-0.8	1.56
Tri-Continental Corp†	D	B	-3.9	0.66
20th Century Giftrust Investors*	A+	D	13.5	1.00
20th Century Growth Investors*	A	D	-1.5	1.00
20th Century Select Investors*	D	C	-8.0	1.00
20th Century Ultra Investors*	A+	D	-3.6	1.00
20th Century Vista Investors*	A	F	4.7	1.00
UMB Stock Fund*	D	A	2.7	0.87

Fund	Performance UP —markets—	DOWN	12-month total return	Annualized expenses per \$100
United Accumulative Fund	C	B	0.1%	\$0.65
United Continental Income (B)	A	D	-0.3	0.81
United Income Fund	B	B	-1.8	0.66
United International Growth (F)	C	A	1.8	1.20
United Kingdom Fund† (F)	D	B	3.3	1.50
United New Concepts	A	C	11.3	1.19
United Retirement Shares (B)	A	C	-0.4	0.87
United Science & Technology	B	B	9.8	0.91
United Services—Gold Shares* (F)	D	D	-2.7	1.46
United Services—World Gold* (G)	D	D	-16.9	1.53
United Vanguard Fund	C	C	6.2	1.05
USAA Investment—Cornerstone* (G)	C	B	-1.0	1.11
USAA Investment—Gold Fund* (F)	F	D	-9.4	1.26
USAA Mutual—Aggressive Growth*	B	F	-0.8	0.83
USAA Mutual—Growth*	D	C	3.3	1.04
USAA Mutual—Income Stock*	D	A	-0.7	0.73
UST Master Funds—Equity	B	D	0.2	1.14
UST Master Funds—Income & Growth	C	C	-4.3	1.17
Value Line Fund*	B	D	-4.5	0.80
Value Line Income*	D	A	-4.3	0.88
Value Line Leveraged Growth Inv*	B	D	-3.7	0.92
Value Line Special Situations*	D	F	1.0	1.06
Van Eck Gold/Resources (G)	D	C	-15.6	1.39
Van Eck Intl Investors Gold (F)	B	D	-1.0	1.12
Van Eck World Trends (G)	C	B	2.3	1.86
Van Kampen Growth & Income-A	D	B	-5.2	1.61
Vanguard Explorer Fund*	B	D	0.5	0.73
Vanguard Index—500 Portfolio	B	B	1.2	0.19
Vanguard Index—Small Cap Stock	B	F	-0.5	0.18
Vanguard International Growth* (F)	B	C	0.8	0.46
Vanguard/Morgan Growth*	C	C	-1.6	0.49
Vanguard/Primecap Fund*	B	D	11.4	0.67
Vanguard Quantitative Portfolios*	C	B	-0.5	0.50
Vanguard Special—Energy	D	A	-1.6	0.17
Vanguard Special—Gold & Precious (G)	C	B	-5.4	0.26
Vanguard Special—Health Care	A	A	9.6	0.19
Vanguard/Trustees' Equity—Intl* (F)	B	C	5.2	0.40
Vanguard/Trustees' Equity—US*	C	C	-3.9	0.90
Vanguard US Growth*	C	B	3.9	0.52
Vanguard/Wellesley Income* (B)	C	A	-4.4	0.33
Vanguard/Wellington Fund* (B)	B	C	-0.4	0.34
Vanguard/Windsor Fund†	B	B	-0.1	0.40
Vanguard/Windsor II*	C	B	-1.1	0.39
Vontobel EuroPacific Fund* (F)	D	B	-5.3	1.77
Voyageur Growth Stock	C	C	-0.2	1.90
Warburg Pincus Capital Appreciation* (C)	C	B	-2.9	1.01
Washington Mutual Investors	C	A	0.5	0.69
Winthrop Focus—Aggress Growth	A	D	-0.7	1.44
Winthrop Focus—Growth	D	D	-4.2	1.36
Winthrop Focus—Growth & Income	D	B	-2.4	1.33
Worldwide Value Fund† (G)	C	D	-3.7	2.10
WPG Growth & Income*	B	D	-5.5	1.26
WPG Growth Fund*	C	D	-14.0	0.98
WPG Tudor Fund*	C	D	-9.8	1.25
Zweig Fund†	D	A	-1.8	1.23
Zweig Series—Priority Selection-A	D	A	-4.3	1.53

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (B): Balanced. (F): Foreign. (G): Global. Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesnerberger.

A dark, moody photograph of a wooden chair. A single, speckled yellow egg is balanced on the seat of the chair. The chair's legs and backrest are visible, creating a sense of depth and stability.

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Taxable bond funds

No wonder first-time investors were shocked: Of the 303 bond funds in the following tables, all but 22 lost money in 1994, even with interest thrown back in. Leading the list of stinkers were the mortgage funds run by Piper Capital Management's Worth Bruntjen, who, not content with investing for yield, used derivatives to place bets that interest rates wouldn't rise—and lost.

Three kinds of funds were spared from the disaster: those that invest in junk bonds, like Northeast Investors, where hefty yields and improving credit ratings partly compensate for rising interest rates; those with extremely short maturities, like Neuberger & Berman Ultra Short Bond; and those that invest in floating-rate bank debt, like Merrill Lynch Senior Floating Rate Fund. No surprise there; all three categories have long earned high FORBES grades for downmarket performance.

The naive investor will conclude that these best-performers are the best bets for 1995. Not necessarily. Most of the funds that did well in last year's massacre will underperform if interest rates fall or stay steady. That's because they will get less of a bang out of a market rally than a longer-term bond fund. If you think interest rates are done rising, look for a fund that gets an A in upmarkets. If you think rates have higher to go, stick to funds with good downmarket grades.

Not sure? Intermediate funds, those with average maturities of 5 to 10 years, are a good choice. Since Treasuries maturing in 5 years give almost the same yield as those maturing in 30, medium-term funds can deliver a decent return at less risk. (Of course, they also go up less in a rally.) Also suitable for fence-sitters: Ginnie Mae and junk funds. With junk you take a risk of defaults, but the high coupons have the effect of lowering your interest rate risk.

No matter where you choose to perch on the interest rate seesaw, remember that funds with high ownership costs are a bad bet. Annual fees for management and distribution range in this table from just 0.26% of assets at several Vanguard funds to 3.38% at New America High Income. In markets driven mostly by interest rate shifts, it's hard for one bond fund manager to outsmart another; so funds with higher expenses may be compelled to take higher risks to cloak their excess costs.

The funds shown here each have at least \$100 million in assets and a five-year record. The Merrill Lynch corporate/government bond index, broken into bullish and bearish months, is the benchmark for high-grade funds; junk bond funds are measured against the Merrill Lynch High Yield Master Index for 2½ up-and-down cycles, beginning Oct. 31, 1984. Global funds are compared against the monthly returns of the dollar-denominated J.P. Morgan Global government bond index.

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
AAL Bond Fund	C C	-4.8%	\$1.02
AARP Income-GNMA & US Treasury*	D B	-1.7	0.70
AARP Income-High Quality Bond*	B D	-4.5	1.01
ACM Government Income†	A D	-14.0	1.48
ACM Government Opportunity†	A D	-13.3	1.19
ACM Government Securities†	A D	-15.7	1.43
ACM Government Spectrum†	A D	-18.0	1.21
ACM Managed Income†	A+ D	-11.5	1.05
Advantage Government Securities	A D	-9.8	1.31
AIM Government Securities-A	D B	-3.4	1.00
AIM High Yield-A (J)	B B	-1.7	1.12
AIM Income Fund-A	A D	-7.6	0.98
AIM Limited Maturity Treas Shares	D A	0.8	0.47
Alliance Bond-Corporate Bond-A	A+ C	-12.7	1.30
Alliance Bond-US Government-A	B C	-4.4	1.02
Alliance Mortgage Secs Income-A	C C	-6.1	1.00
Alliance Short-Term Multi-Market-A (I)	F A+	-8.7	1.16
American Capital Bond†	A D	-5.2	1.50
American Capital Corp Bond-A	B C	-4.3	1.09
American Capital Government Secs-A	B C	-4.2	0.98
American Capital High Yield Inv-A (J)	C D	-3.6	1.10
American Capital Income†	C A	-2.8	1.00
American Government Inc Fund†	A+ F	-25.1	2.32
American Government Inc Port†	A+ F	-24.9	2.34
American Opportunity Income†	A+ F	-26.7	2.79
Babson Bond-Portfolio L*	B C	-3.3	0.98
Bartlett Fixed Income*	D C	-2.9	1.00
Benham GNMA Income*	C B	-1.5	0.54
Benham Target Maturities-2000*	A+ F	-6.9	0.60
Benham Target Maturities-2005*	A+ F	-8.9	0.62
Benham Treasury Note*	A C B	-2.3	0.51
Bernstein Govt Short Duration*	D A	0.6	0.68
Bernstein Intermediate Duration*	B C	-3.0	0.66
Bernstein Short Duration Plus*	D A	0.7	0.66
BlackRock Income Trust†	B C	-7.5	2.01
BlackRock Target Term†	A D	-6.6	1.63
Bond Fund of America	B B	-5.0	0.71
Capital World Bond (I)	B C	-1.4	1.11
Capstone Government Income	F B	1.1	0.93

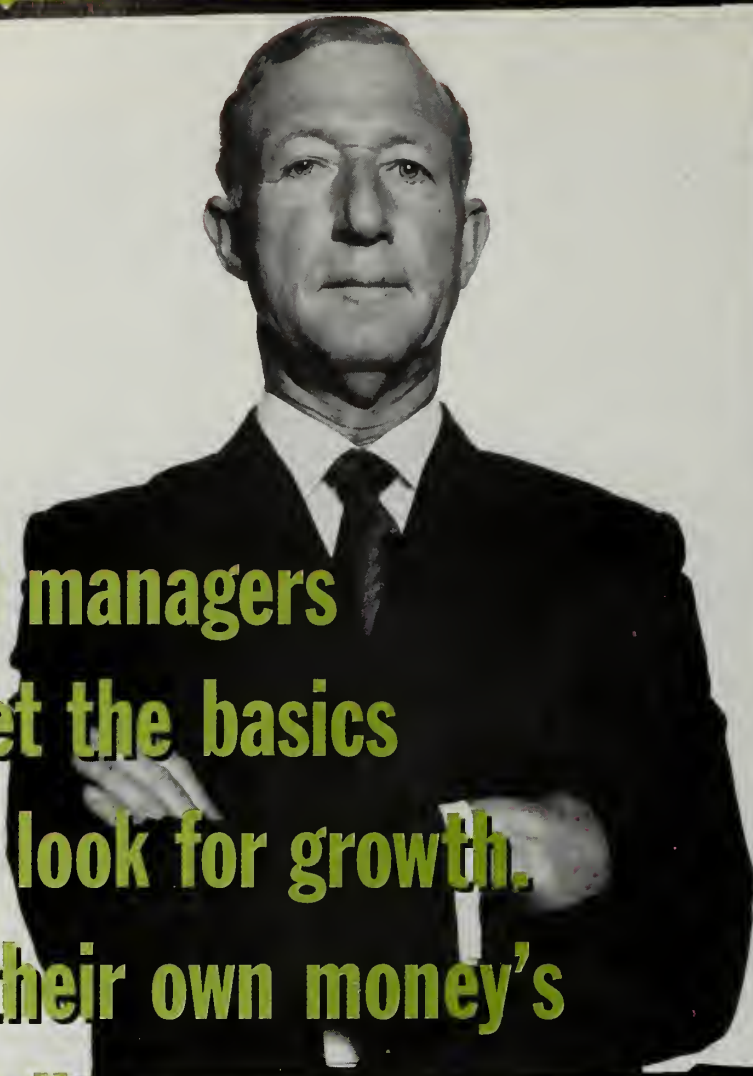
All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (I): International bond. (J): Junk bond.

Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesnerberger.

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Cardinal Government Obligations	D A	-0.9%	\$0.73
Colonial Federal Securities-A	B D	-6.2	1.17
Colonial High Yield Secs-A (J)	A C	-1.1	1.23
Colonial Income Fund-A	C C	-4.7	1.10
Colonial InterMarket Income I†	B B	-3.9	1.02
Colonial US Government-A	D B	-2.3	1.11
Columbia Fixed Income Securities*	B C	-3.4	0.66
Common Sense-Government Fund	C C	-4.5	0.89
Compass Capital Fixed Income	B D	-3.8	0.83
Compass Capital Short/Intermediate	D B	-0.5	0.84
Composite US Government Secs-A	C C	-4.9	0.99
Comstock Partners Strategy-A	F A+	-3.7	1.40
CS First Boston Income†	C A	-1.9	0.88
Dean Witter Federal Securities	B D	-5.0	1.50
Dean Witter Government Inc†	D B	-1.4	0.70
Dean Witter High Yield Secs‡ (J)	A+ F	-7.1	0.69
Dean Witter Intermediate Income	D B	-3.1	1.63
Dean Witter US Government Secs	D B	-3.5	1.18
Dean Witter World Wide Income (I)	D C	-4.4	1.87
Delaware Group Delchester-A (J)	C C	-4.6	1.05
Delaware Group Treas Res Intermed-A	D B	-1.9	0.88
Delaware Group US Government-A	C C	-5.8	1.23
Dodge & Cox Income Fund*	A C	-2.8	0.60
Dreyfus A Bonds Plus*	A D	-6.1	0.90
Dreyfus GNMA Fund	D B	-2.8	0.95
Dreyfus 100% US Treasury Intermed*	B C	-4.0	0.73
Dreyfus 100% US-Treasury L-T*	A+ F	-9.2	0.78
Dreyfus Short-Intermediate Govt*	D A	-0.8	0.40
Dreyfus Strategic Governments Inc†	C C	-2.2	0.89
Dreyfus Strategic Income	A D	-6.3	0.84
EV Income Fund of Boston (J)	B B	-1.3	1.03
EV Marathon High Income (J)	C C	-2.2	1.82
EV Prime Rate Reserves	D A+	6.0	1.77
EV Traditional Govt Obligations	D B	-2.0	1.52
Enterprise Group-Government Secs	C C	-7.8	1.30
Federated High Yield* (J)	A C	-2.4	0.83
Federated US Government Bond*	A D	-6.2	0.83
Fidelity Advisor High Yield (J)	A A	-2.1	1.11
Fidelity Advisor Short Fixed-Income	D A	-3.4	0.95
Fidelity Capital & Income (J)	B B	-4.8	0.97
Fidelity Ginnie Mae*	D B	-2.0	0.82
Fidelity Global Bond* (I)	C C	-16.3	1.17
Fidelity Government Securities*	A D	-5.2	0.69
Fidelity Intermediate Bond*	C B	-2.0	0.64

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Fidelity Investment Grade Bond*	B C	-5.3%	\$0.74
Fidelity Mortgage Securities*	D A	1.9	0.79
Fidelity Short-Term Bond*	D A	-4.1	0.80
First Australia Prime Income† (I)	A A	5.2	1.44
First Investors Fund for Income (J)	C D	0.6	1.32
First Investors Government	C C	-3.2	1.32
First Investors High Yield (J)	B D	0.5	1.69
Flag Investors Total Ret US Treas-A	A D	-4.0	0.77
Fort Dearborn Income Securities†	A D	-4.6	0.76
Fortis Securities†	C A	-4.9	0.76
Fortis US Government Securities	C C	-5.6	0.76
FPA New Income	C A	1.4	0.74
Franklin Adj US Government Secs	F A	-1.9	0.65
Franklin Global Government Inc (I)	D C	-7.7	0.77
Franklin Principal Maturity†	B C	-15.8	2.98
Franklin Short-Intermed US Govt	D B	-2.1	0.55
Franklin Tax-Advantaged US Govt	C B	-4.1	0.59
Franklin US Government Secs	D B	-2.7	0.52
Franklin's AGE High Income (J)	B D	-1.5	0.59
Fund for US Government Secs-A	D B	-1.9	0.88
Global Government Plus† (I)	C D	-6.7	1.07
Global Income Plus† (I)	C B	-4.1	1.50
Global Yield Fund† (I)	D B	-8.1	1.02
Government Income Securities	D B	-1.9	0.97
Gradison-McDonald Government Inc	C C	-3.7	0.90
GT Global Government Income-A (I)	C C	-13.9	1.40
GT Global Strategic Income-A (I)	A F	-20.8	1.70
Hancock Freedom Global Inc-A (I)	C D	-0.5	1.46
Hancock Government Income-A	B D	-5.3	2.01
Hancock Government Secs	A D	-4.0	1.16
Hancock Income Securities†	B B	-2.9	0.84
Hancock Investors Trust†	B B	-2.9	0.85
Hancock Limited Term Govt-A	D B	-1.3	1.51
Hancock Sovereign Bond-A	B B	-2.7	1.41
Hancock Sovereign US Govt Inc-A	B C	-4.1	1.30
Hancock Strategic Income-A (J)	D B	-3.0	1.32
Harbor Bond Fund*	B C	-3.7	0.72
Hyperion Total Return†	D A	0.4	2.58
IDS Bond Fund	A C	-4.3	0.70
IDS Extra Income (J)	C D	-7.9	0.81
IDS Federal Income	D A	-0.3	0.76
IDS Global Bond (I)	B C	-4.9	1.31
IDS Selective Fund	A D	-4.4	0.72
IDS Strategy-Income	B D	-6.2	1.60

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (I): International bond. (J): Junk bond.
Sources: *Forbes*; *Lipper Analytical Services*; *Morningstar, Inc.*; *CDA/Wiesenberger*.



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TAXABLE BOND FUNDS

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
IDS Strategy-Short-Term Income	F A	-1.2%	\$1.73
InterCapital Income Securities†	C B	-2.2	0.66
Intermediate Bond Fund of America	C C	-3.0	0.83
Invesco High Yield (I)	D A	-5.0	0.97
Invesco Select Income	C A	-1.2	1.11
Investors Trust-Government-A	C D	-8.6	1.03
ISI Total Return US Treasury	A D	-4.0	0.77
Ivy Bond Fund-A	A D	-4.4	1.45
Janus Flexible Income*	B B	-2.9	1.00
Kemper Adjustable US Govt-A	D B	-0.4	0.93
Kemper Diversified Income-A (I)	B C	-3.9	0.98
Kemper High Yield-A (I)	A C	-1.9	0.84
Kemper Inc & Cap Preservation-A	B C	-3.3	0.82
Kemper Intermediate Government†	C C	-3.3	0.92
Kemper Multi-Market Income†	C A+	-3.0	0.97
Kemper US Government Securities-A	C C	-3.0	0.65
Keystone Custodian B-1	C D	-5.1	1.94
Keystone Custodian B-2	D C	-6.9	1.75
Keystone Custodian B-4 (I)	D F	-12.2	1.84
Legg Mason US Govt Intermed-Term	D B	-1.9	0.90
Lexington GNMA Income*	C C	-2.1	1.02
Liberty Financial US Govt Secs	C C	-1.6	0.75
Liberty High Income Bond-A (I)	A C	-1.7	1.18
Lord Abbett Bond-Debenture (I)	D A	-3.9	0.88
Lord Abbett Global-Income (I)	B D	-2.8	1.04
Lord Abbett US Government Secs	A D	-4.1	0.89
Lutheran Brotherhood Income	B D	-4.8	0.80
MainStay-Government Fund	D C	-2.8	1.70
MainStay-High Yield Corp Bond (I)	B B	1.5	1.60
Managers Intermediate Mortgage*	B F	-25.0	0.75
MAS-Fixed Income*	A C	-5.5	0.47
MassMutual Corporate Investors†	F A+	NA	2.93
Mentor Income†	D B	-6.1	2.48
Merrill Lynch Corp-High Income-A (I)	C A	-2.7	0.55
Merrill Lynch Corp-Intermediate-A	B C	-3.8	0.58
Merrill Lynch Corp-Invest Grade-A	B D	-5.1	0.56
Merrill Lynch Federal Securities-A	D B	-3.3	0.83
Merrill Lynch Glob Bond Inv & Ret-A (I)	B B	-5.3	0.82
Merrill Lynch Senior Floating Rate†	F A+	6.2	1.47
Merrill Lynch World Income-A (I)	D A	-4.0	0.78
MetLife-State Street Govt Secs-A	B D	-3.5	1.24
MetLife-State Street High Income-A (I)	B C	-2.9	1.16
MetLife-State Street Res Govt Inc-A	B C	-2.9	1.05
MFS Bond Fund-A	B C	-4.4	0.96

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
MFS Charter Income†	B B	-3.5%	\$0.90
MFS Govt Limited Maturity-A	D B	-0.8	1.14
MFS Government Markets Income†	B D	-5.9	0.93
MFS Government Mortgage-A	C D	-2.2	1.27
MFS Government Securities-A	C C	-3.3	0.68
MFS High Income-A (I)	B D	-2.6	1.00
MFS Intermediate Income-A	D D	-5.5	1.22
MFS Intermediate Income†	B D	-4.8	0.95
MFS Multimarket Income†	B C	-4.4	1.11
MFS World Governments-A (I)	B D	-6.6	1.54
Montgomery Street Income Secs†	A C	-5.2	0.73
Nationwide Bond Fund	B D	-8.1	0.68
N & B Limited Maturity Bond*	D A	-0.3	0.65
N & B Ultra Short Bond*	F A	2.2	0.65
New America High Income† (I)	D C	-7.6	3.38
New England Bond Income-A	B C	-4.2	1.04
New England Government Sec-A	B D	-5.5	1.22
New England Limited-Term US Govt-A	C B	-2.2	1.14
Nicholas Income Fund* (I)	F A	-0.2	0.62
North American US Govt Securities-A	C B	-1.6	1.07
Northeast Investors Trust* (I)	C B	2.2	1.21
Oppenheimer High Yield-A (I)	D A	-2.4	0.96
Oppenheimer Limited Term Govt-A	C B	0.5	1.02
Oppenheimer Multi-Sector Income†	C A	-2.8	1.00
Oppenheimer Strategic Income-A	C A	-4.4	1.09
Oppenheimer US Government-A	C B	-1.3	1.14
Pacific American Income Shares†	B B	-4.3	0.80
Pacific Horizon-US Government Secs	C B	-3.8	0.96
PaineWebber Global Income-A (I)	C B	-3.8	1.32
PaineWebber High Income-A (I)	B D	-11.7	0.93
PaineWebber Investment Grade Inc-A	B C	-5.6	0.96
PaineWebber US Government Inc-A	C D	-10.5	0.91
Permanent Portfolios-Treasury Bill*	F A	3.3	0.72
Phoenix High Yield-A (I)	D A	-8.0	1.04
Phoenix Multi-Sector Fixed Income-A	B A	-6.7	1.29
Phoenix US Government Secs-A	C C	-3.3	0.75
Pilgrim Prime Rate Trust†	D A+	8.2	1.31
Pimco Advisors-High Income-A	D D	-6.6	1.20
Pimco Advisors-US Government-A	C D	-4.6	1.00
Pioneer America Income-A	D B	-4.0	1.00
Pioneer Bond Fund-A	C C	-4.2	1.05
Piper Funds-Government Income	A D	-9.1	1.05
Piper Funds-Institutional Govt Inc†	B F	-28.3	0.78
Portico-Bond IMMDEX	B C	-3.0	0.50

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. NA: Not available. (I): International bond. (J): Junk bond.
Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberg.

TAXABLE BOND FUNDS

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Portico-Short-Term Bond Market	D A	0.9%	\$0.52
Premier GNMA Fund-A	C B	-2.9	0.78
T Rowe Price GNMA Fund*	C B	-1.6	0.77
T Rowe Price High Yield (J)	D B	-8.0	0.85
T Rowe Price International Bond* (I)	A+ D	-1.8	0.99
T Rowe Price New Income*	C C	-2.2	0.82
T Rowe Price Short-Term Bond*	D A	-2.9	0.74
T Rowe Price US Treasury Intermed*	C B	-2.2	0.79
Prime Income Trust†	F A+	7.6	1.45
Princor Government Secs Income	B D	-4.9	0.93
Prudential GNMA Fund-A	D B	-2.0	1.00
Prudential Government Income-A	B D	-4.1	0.84
Prudential Govt Secs-Intermed	D B	-2.5	0.80
Prudential High Yield-A (J)	D C	-2.3	0.76
Prudential Intermed Global Inc-A (I)	D B	-7.1	1.41
Prudential Structured Maturity-A	D A	-1.1	0.80
Prudential US Government-A	A F	-5.4	0.96
Putnam Adjustable Rate US Govt-A	F A	-0.2	1.07
Putnam American Government-A	D D	-2.9	0.91
Putnam Diversified Income-A	B B	-5.6	1.21
Putnam Federal Income-A	C D	-3.1	1.05
Putnam Global Governmental Inc-A (I)	C D	-10.0	1.27
Putnam High Inc Convert & Bond†	C A+	-2.6	1.03
Putnam High Yield Advantage-A (J)	A B	-5.1	0.96
Putnam High Yield Trust-A (J)	C B	-4.7	0.92
Putnam Income Fund-A	C B	-3.3	0.77
Putnam Intermediate Govt Income†	B C	-4.2	0.89
Putnam Master Income†	B B	-4.6	0.92
Putnam Master Intermediate Income†	B B	-4.9	0.96
Putnam Premier Income†	B B	-4.7	0.86
Putnam US Govt Income-A	D B	-2.5	0.88
Quest for Value-US Govt Income-A	C C	-3.1	1.15
Scudder GNMA Fund*	C C	-3.1	0.87
Scudder Income Fund*	A D	-4.4	0.92
Scudder International Bond* (I)	A C	-8.6	1.27
Scudder Short Term Bond*	D A	-2.9	0.68
Security Income-Corporate Bond-A	A D	-8.2	1.02
Sentinel Government Securities	B C	-4.3	0.98
Sierra-US Government-A	C C	-5.9	1.06
Smith Barney-US Government Secs-A	C B	-1.4	0.49
SBS Income-High Income-A (J)	C D	-4.5	1.11
SBS Invest-Government Secs-A	A D	-2.8	1.07
SBS Invest-Invest Grade Bond-A	A+ F	-8.9	1.11
SBS Managed Governments-A	B C	-1.8	1.22

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Spartan Government Income*	C C	-3.6%	\$0.65
Spartan Limited Maturity Govt*	D A	-1.0	0.65
Stagecoach US Govt Allocation	A D	-7.0	0.99
SteinRoe Income Fund*	B C	-4.1	0.82
SteinRoe Intermediate Bond*	C C	-2.7	0.70
Strong Advantage Fund*	D A+	3.5	0.90
Strong Government Securities*	B A	-3.4	0.80
Strong Income Fund*	D B	-1.3	1.10
Strong Short-Term Bond*	D A	-1.6	0.80
SunAmerica High Income-A (J)	C C	-8.9	1.72
SunAmerica US Government Secs-A	D A	-0.4	1.35
Templeton Global Governments Inc† (I)	C C	-2.9	1.05
Templeton Global Income† (I)	C B	-2.4	0.79
Templeton Income Fund (I)	C C	-3.6	1.18
Thornburg Limited Term US Govt	D B	-2.1	0.95
Transamerica Income Shares†	A C	-4.6	0.69
20th Century Long-Term Bond*	A D	-4.4	1.00
20th Century US Governments S-T*	D B	-0.4	1.00
United Bond Fund	A D	-5.7	0.65
United Government Securities	B D	-3.9	0.75
United High Income (J)	C D	-3.6	0.78
United High Income II (J)	D B	-4.1	0.88
US Government Securities	C C	-4.6	0.78
USAA Mutual-Income*	A D	-5.2	0.41
UST Master Funds-Managed Income	A D	-5.5	0.90
Value Line US Government Secs*	C D	-10.6	0.63
Van Eck World Income-A (I)	B D	-2.8	1.27
Van Kampen High Yield-A (J)	C D	-3.4	1.32
Van Kampen Intermediate High Inc†	F A+	-2.5	1.04
Van Kampen Limited Term High Inc†	C A	-5.7	1.05
Van Kampen Prime Rate Income†	D A+	6.7	1.53
Van Kampen US Government-A	C C	-5.1	0.87
Vanguard Fixed Inc-GNMA*	C B	-1.0	0.28
Vanguard Fixed Inc-High Yield (J)	D A	-1.7	0.32
Vanguard Fixed Inc-Long Term*	A+ D	-5.3	0.30
Vanguard Fixed Inc-L-T US Treas*	A+ F	-7.8	0.26
Vanguard Fixed Inc-S-T Corp*	D A	-0.1	0.26
Vanguard Fixed Inc-S-T Federal*	D B	-0.9	0.26
Vanguard Preferred Stock*	B C	-7.9	0.53
Vanguard Total Bond Market*	B C	-2.7	0.18
Vista US Government Income-A	B D	-4.5	0.75
Voyageur US Government Securities	A D	-5.5	0.96
WPG Government Securities*	C D	-8.8	0.81
Zenix Income Fund†	C A	-10.1	2.52

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. (I): International bond. (J): Junk bond.
Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.

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Municipal bond funds

There was good news and bad news for municipal bond fundholders in 1994. First the bad news: The average fund lost 5.4% as interest rates rose and Orange County went bust. But the good news is good indeed: Munis now yield 86% as much as comparable Treasuries, near the top of their historic range. With the supply of new issues likely to fall this year—to \$150 billion or so, versus \$160 billion in 1994 and \$290 billion in 1993—prices could start to rise again. Says Thomas Kenny, who runs \$39 billion in muni funds at Franklin Templeton Group in San Mateo, Calif.: "We've never seen such a confluence of favorable factors: lower supply, attractive yields relative to Treasuries and interest rates that should be fairly stable."

But don't just throw a dart. Study the downmarket and upmarket rankings and look for low management charges. Don't reflexively bite at sales talk about the triple-tax-free joys of single-state munis. In states with low income taxes, the extra tax advantage over a national muni fund may not make up for the money you may be losing in higher management fees on a local fund. In high-tax states, you indeed get a nice tax advantage from local bonds—but you may be exposing yourself to deteriorating credit ratings. New York funds are the glaring example here.

Note that here, as in our taxable bond tables, a high upmarket grade indicates portfolios with a very long average maturity, while a high downmarket grade denotes a short average maturity. Strong upmarket performers will thrive if interest rates fall or stay put; the downmarket stars will do best if rates rise.

Unlike Treasury bonds, most munis are callable, meaning that the issuer can force an early redemption. It will do so if interest rates go down to well below the coupon on the bond. Funds differ in the degree to which they avoid this problem by holding discounted bonds—those, that is, that are unlikely to be called. If you are betting on a long-maturity muni fund because you think interest rates are headed down, don't get into a fund that will disappoint you in the next rally. Look for a fund whose portfolio (in the annual or semiannual financial statement) shows a relatively large number of bonds valued at a discount to par value, and few valued at a premium.

We measure tax-exempt bond funds against a Lehman Brothers market index. For the last 60 months, we blend all the bullish months into an upmarket composite grade for the fund, and all the bearish months into a downmarket composite. Funds need at least \$100 million in assets and a five-year performance record for inclusion.

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
AARP Insured T-F Income-Genl Bond*	A F	-6.2%	\$0.72
ABT Southern Master-Fla T-F	A C	-4.6	0.56
AIM Municipal Bond-A	A D	-3.8	0.91
Alliance Muni Income-Calif-A	D B	-10.1	0.74
Alliance Muni Income-Ins Calif-A	C D	-11.0	0.94
Alliance Muni Income-Ins Natl-A	B D	-9.2	0.73
Alliance Muni Income-National-A	B C	-9.6	0.65
Alliance Muni Income-New York-A	D B	-10.1	0.68
Ambassador T-F Intermed-Retail-A	F A	-2.9	0.84
American Capital Muni Bond-A	C C	-3.5	0.91
American Capital T-E-High Yield-A†	D A	0.2	1.03
American Capital T-E-Insured-A	D A	-3.4	1.07
Apex Municipal Fund†	F A	-1.1	0.88
Benham Calif Municipal High Yield*	D A	-5.3	0.51
Benham Calif Tax-Free Insured*	A D	-6.5	0.49
Benham Calif Tax-Free Intermediate*	D A	-3.7	0.48
Benham Calif Tax-Free Long-Term*	A D	-6.4	0.48
Bernstein Diversified Municipal*	D A	-2.4	0.69
Bernstein New York Municipal*	D A	-2.4	0.69
California Tax-Free Income*	B C	-8.3	0.60
Calvert Tax-Free Reserves-Limited-A	F A+	2.4	0.67
Churchill Tax-Free Fund of Kentucky	D A	-3.3	0.59
Colonial Calif Tax-Exempt-A	D B	-7.3	0.75
Colonial High Income Municipal†	D A	-1.3	0.97
Colonial Investment Grade Muni†	D A	-4.1	0.87
Colonial Mass Tax-Exempt-A	B C	-6.2	0.64
Colonial Municipal Income†	F A+	-0.4	0.87
Colonial New York Tax-Exempt-A	D C	-8.3	0.62
Colonial Ohio Tax-Exempt-A	C C	-6.7	0.82
Colonial Tax-Exempt-A	D B	-6.7	1.02
Colonial Tax-Exempt Insured-A	C C	-6.6	1.07
Columbia Municipal Bond*	C C	-4.7	0.58
Common Sense-Municipal Bond	D B	-4.3	0.96
Composite Tax-Exempt Bond-A	B D	-6.5	0.81
Dean Witter Calif Tax-Free Income	C C	-6.0	1.27
Dean Witter NY Tax-Free Inc	C C	-7.7	1.27
Dean Witter Tax-Exempt Securities	B C	-5.5	0.47
Delaware Group Tax-Free USA-A	C B	-3.0	0.89
Delaware Tax-Free Pennsylvania-A	D B	-3.9	0.88
Dreyfus Calif Tax-Exempt Bond*	D C	-7.1	0.70
Dreyfus Insured Municipal Bond	B D	-8.6	0.93
Dreyfus Intermed Muni Bond*	D B	-4.6	0.70
Dreyfus Mass Tax-Exempt Bond*	B C	-6.0	0.80
Dreyfus Municipal Bond*	C C	-7.0	0.68
Dreyfus Municipal Income†	D A	-5.5	0.83

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end.

‡Closed to new investors.

Sources: *Forbes*; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.



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MUNICIPAL BOND FUNDS

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Dreyfus New Jersey Municipal Bond	B C	-6.0%	\$0.72
Dreyfus NY Insured Tax-Ex Bond	C C	-6.6	0.96
Dreyfus NY Tax-Ex Bond*	C B	-6.9	0.71
Dreyfus NY Tax-Ex Intermed Bond	D A	-5.1	0.89
Dreyfus Short-Intermed Muni Bond	F A+	-0.3	0.74
Dreyfus Strategic Municipal Bond†	D A	-4.6	0.85
Dreyfus Strategic Municipals†	D A	-1.7	0.87
Dupree-Kentucky Tax-Free Income*	D A+	-3.0	0.69
EV Marathon California Munis	D D	-9.1	1.67
EV Marathon National Municipals	A D	-8.1	1.69
EV Municipal Bond	A D	-7.3	0.72
Empire Builder Tax-Free Bond	C B	-4.5	0.98
Fidelity Advisor High Income Muni	C A	-8.0	0.92
Fidelity Calif Tax-Free High Yield*	D C	-8.9	0.57
Fidelity Calif Tax-Free Insured*	B D	-10.3	0.48
Fidelity Mass Tax-Free High Yield*	C B	-6.0	0.54
Fidelity Michigan Tax-Free High Yield*	B C	-7.5	0.59
Fidelity Minnesota Tax-Free*	D C	-5.9	0.61
Fidelity NY Tax-Free High Yield*	C C	-8.0	0.58
Fidelity NY Tax-Free Insured*	C C	-7.9	0.58
Fidelity Ohio Tax-Free High Yield*	B C	-5.5	0.57
Fidelity Tax-Free-Aggressive*	D A	-5.9	0.64
Fidelity Tax-Free-High Yield*	C C	-7.4	0.56
Fidelity Tax-Free-Insured*	A D	-7.7	0.61
Fidelity Tax-Free-Ltd Term Munis*	D A	-4.8	0.57
Fidelity Tax-Free-Municipal Bond*	B D	-8.6	0.49
First Investors Insured Tax-Exempt	D B	-5.6	1.15
First Investors NY Insured Tax-Free	D B	-5.0	1.27
Flagship Tax-Ex-All-American-A	A D	-5.9	0.62
Flagship Tax-Ex-Conn Double-A	B D	-6.2	0.65
Flagship Tax-Ex-Ga Double-A	B D	-6.1	0.70
Flagship Tax-Ex-Ky Triple-A	A D	-5.4	0.58
Flagship Tax-Ex-Limited Term-A	D A	-1.9	0.70
Flagship Tax-Ex-Michigan Triple-A	B D	-5.0	0.75
Flagship Tax-Ex-Missouri Double-A	A D	-6.1	0.62
Flagship Tax-Ex-NC Triple-A	B C	-5.6	0.89
Flagship Tax-Ex-Ohio Double-A	B C	-4.6	0.93
Flagship Tax-Ex-Tennessee Double-A	B D	-5.5	0.76
Flagship Tax-Ex-Virginia Double-A	B C	-5.5	0.64
Fortress Municipal Income	D B	-5.7	1.09
Franklin Alabama T-F Income	C B	-4.4	0.64
Franklin Arizona T-F Income	C B	-4.0	0.54
Franklin Calif Insured T-F Income	D B	-5.3	0.54
Franklin Calif T-F Income	D A	-2.8	0.49
Franklin Colorado T-F Income	B C	-5.4	0.64

Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Franklin Connecticut T-F Income	C C	-5.4%	\$0.65
Franklin Federal T-F Income	C B	-3.7	0.52
Franklin Florida T-F Income	C B	-3.3	0.52
Franklin Georgia T-F Income	C B	-3.7	0.69
Franklin High Yield T-F Income	C A	-2.5	0.53
Franklin Insured T-F Income	C B	-3.6	0.52
Franklin Louisiana T-F Income	C B	-4.8	0.68
Franklin Maryland T-F Income	C B	-5.1	0.66
Franklin Mass Insured T-F Income	C B	-3.6	0.60
Franklin Mich Insured T-F Income	C B	-3.9	0.54
Franklin Minn Insured T-F Income	D B	-3.2	0.60
Franklin Missouri T-F Income	C B	-5.1	0.64
Franklin New Jersey T-F Income	C B	-5.2	0.57
Franklin New York T-F Income	C A	-3.1	0.52
Franklin NC T-F Income	C B	-5.7	0.63
Franklin Ohio Insured T-F Income	C B	-4.5	0.56
Franklin Oregon T-F Income	C B	-4.9	0.58
Franklin Pennsylvania T-F Income	C B	-3.3	0.56
Franklin Puerto Rico T-F Income	C B	-4.3	0.66
Franklin Texas T-F Income	C B	-2.8	0.65
Franklin Virginia T-F Income	C B	-4.6	0.62
General California Municipal Bond	C B	-7.0	0.64
General Municipal Bond	A D	-7.3	0.82
General New York Municipal Bond	B C	-7.2	0.69
Hancock Calif T-F Income-A	C B	-9.3	0.69
Hancock Freedom Mngd Tax-Ex-A	A D	-5.2	0.70
Hancock High Yield Tax Free-A	C C	-5.0	2.06
Hancock Tax-Exempt Income-A	B D	-5.9	1.27
Hawaiian Tax-Free Trust	D B	-4.7	0.74
IDS California Tax-Exempt	C C	-5.2	0.61
IDS High Yield Tax-Exempt	D C	-5.0	0.61
IDS Insured Tax-Exempt	A D	-6.1	0.65
IDS Minnesota Tax-Exempt	C B	-4.4	0.66
IDS New York Tax-Exempt	C B	-5.1	0.65
IDS Tax-Exempt Bond	B F	-7.4	0.63
Intermediate Municipal Trust*	D B	-3.8	0.61
Invesco T-F Long-Term Bond	A D	-5.5	1.00
Kemper California T-F Income-A	B C	-5.5	0.74
Kemper Municipal Bond-A	A D	-5.3	0.47
Kemper Municipal Income†	A+ D	-6.6	0.69
Kemper New York T-F Income-A	B B	-5.0	0.76
Kemper Strategic Municipal Inc†	C A	0.2	0.74
Keystone America T-F Income-A	D C	-7.7	1.21
Keystone Tax-Exempt	C D	-7.1	1.71
Keystone Tax-Free‡	C D	-7.3	1.66

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors. Sources: *Forbes*; *Lipper Analytical Services*; *Morningstar, Inc.*; *CDA/Wiesenberger*.

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MUNICIPAL BOND FUNDS

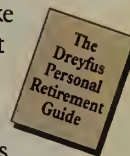
Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100	Fund	Performance UP DOWN —markets—	12-month total return	Annualized expenses per \$100
Landmark New York T-F Income	C C	-7.5%	\$0.80	Nuveen Insured Municipal Bond	A D	-6.3%	\$0.65
Liberty Financial Tax-Free Bond	C B	-4.6	0.55	Nuveen Municipal Advantage†	F A+	-4.8	0.77
Liberty Municipal Securities-A	C B	-3.8	0.84	Nuveen Municipal Bond	D A	-1.9	0.62
Lord Abbett Calif T-F Income	B D	-10.5	0.66	Nuveen Municipal Value†	D A	-1.7	0.74
Lord Abbett T-F Income-Natl	B D	-8.2	0.86	Nuveen New York Insured T-F Value	B C	-6.1	0.68
Lord Abbett T-F Income-New York	C C	-9.2	0.83	Nuveen NY Muni Value†	D A	-1.5	0.85
Lord Abbett T-F Income-Texas	A D	-6.9	0.50	Nuveen NY Performance Plus Muni†	A+ D	-4.5	0.84
Lutheran Brotherhood Muni Bond	B C	-6.6	0.74	Nuveen New York Tax-Free Value	C B	-6.0	0.75
MainStay-Tax-Free Bond	C D	-6.0	1.20	Nuveen Ohio Tax-Free Value	A D	-5.2	0.75
Merrill Lynch Calif Muni Bond-A	B C	-7.1	0.62	Nuveen Performance Plus Muni†	A C	-2.9	0.76
Merrill Lynch Muni-Insured-A	A D	-6.8	0.42	Nuveen Premium Income Muni†	C B	-4.6	0.79
Merrill Lynch Muni-Ltd Maturity-A	F A+	1.4	0.40	Oppenheimer Calif Tax-Exempt-A	C C	-8.5	0.97
Merrill Lynch Muni-National-A	B D	-6.5	0.55	Oppenheimer New York Tax-Exempt-A	D B	-8.8	0.91
Merrill Lynch Muni Intermed Term-A	C C	-3.7	0.75	Oppenheimer Tax-Free Bond-A	B C	-9.2	0.88
Merrill Lynch NY Muni Bond-A	B C	-8.6	0.64	Overland Express Calif T-F Bond-A	B B	-4.3	0.69
MetLife-State Street Tax-Exempt-A	B D	-6.9	1.20	Pacific Horizon-Calif Tax-Ex Bond	C C	-6.1	0.96
MFS California Municipal Bond-A	B C	-8.1	0.60	PaineWebber California T-F Income-A	B C	-8.0	0.90
MFS Maryland Municipal Bond-A	D C	-6.1	1.25	PaineWebber Muni High Income-A	B D	-7.7	1.03
MFS Mass Municipal Bond-A	C C	-5.7	1.19	PaineWebber National T-F Income-A	B D	-7.1	0.89
MFS Municipal Bond-A	A D	-6.9	0.59	Phoenix Calif Tax-Exempt Bonds	D B	-5.2	0.85
MFS Municipal High Income-A‡	D A	-2.9	1.10	Phoenix Multi-Tax-Exempt Bond-A	A D	-7.4	0.75
MFS Municipal Income†	F A+	3.6	1.33	Pierpont Tax-Exempt Bond*	D B	-2.8	0.74
MFS New York Municipal Bond-A	B C	-6.1	0.93	Pioneer Tax-Free Income	A D	-6.3	0.86
MFS North Carolina Muni Bond-A	B D	-6.3	1.19	Piper Funds-Minnesota Tax-Exempt	B C	-5.5	0.89
MFS South Carolina Muni Bond-A	C D	-5.7	1.22	Premier California Muni Bond-A	B B	-6.0	0.78
MFS Tennessee Municipal Bond-A	D B	-4.1	1.29	Premier Municipal Bond-A	A C	-6.4	0.85
MFS Virginia Municipal Bond-A	C C	-6.7	1.18	Premier New York Municipal Bond-A	B C	-6.7	0.78
MFS West Virginia Muni Bond-A	C C	-5.3	1.24	Premier State Muni-Connecticut-A	B C	-5.7	0.80
Midwest Group T-F-Intermed Term-A	D A	-2.9	0.99	Premier State Muni-Florida-A	B C	-4.5	0.80
Municipal High Income†	D A	-1.5	0.87	Premier State Muni-Maryland-A	B C	-4.8	0.80
Municipal Income†	D A	-2.5	0.67	Premier State Muni-Michigan-A	A C	-4.6	0.81
Municipal Income II†	D A	-2.7	0.75	Premier State Muni-Minnesota-A	C B	-4.4	0.80
Municipal Income Opport	F A	3.9	1.22	Premier State Muni-Ohio-A	C B	-4.1	0.81
Municipal Income Opport II†	D A	1.1	1.01	Premier State Muni-Pennsylvania-A	B B	-5.3	0.81
Municipal Premium Income†	A+ D	-6.2	1.23	T Rowe Price Calif T-F Income Bond*	B C	-5.7	0.60
MuniEnhanced Fund†	A+ F	-9.5	0.68	T Rowe Price Maryland T-F Bond*	B D	-5.0	0.57
MuniVest Fund†	A+ F	-9.1	0.48	T Rowe Price New York T-F Bond*	B B	-5.9	0.60
Nationwide Tax-Free Income	C D	-9.1	0.98	T Rowe Price T-F High Yield*	C A	-4.4	0.79
New England Mass T-F Income-A	C C	-7.4	0.85	T Rowe Price T-F Income*	A D	-5.5	0.59
New England Tax-Exempt Income-A	B D	-8.1	0.91	T Rowe Price T-F Short-Intermediate*	F A+	0.3	0.60
New York Muni Fund	D F	-20.5	2.05	Princor Tax-Exempt Bond	C D	-9.4	0.89
Nuveen Calif Insured T-F Value	A D	-6.9	0.71	Prudential Calif Municipal-Calif-A	C B	-5.9	0.77
Nuveen Calif Muni Value†	D A+	-1.4	0.82	Prudential Muni Bond-High Yield-A	C B	-3.0	0.69
Nuveen Calif Performance Plus Muni†	A C	-5.8	0.81	Prudential Muni Bond-Insured-A	A D	-5.3	0.71
Nuveen Calif Tax-Free Value	C B	-6.5	0.73	Prudential Muni-New Jersey-A	A D	-6.0	0.58

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors.
Sources: Forbes; Lipper Analytical Services; Morningstar, Inc.; CDA/Wiesenberger.



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MUNICIPAL BOND FUNDS

Fund	Performance		12-month total return	Annualized expenses per \$100	Fund	Performance		12-month total return	Annualized expenses per \$100
	UP	DOWN				UP	DOWN		
	—markets—					—markets—			
Prudential Muni-New York-A	B	C	-6.4%	\$0.74	Spartan New Jersey Muni High Yield*	B	C	-5.7%	\$0.55
Prudential Muni-Ohio-A	B	D	-4.8	0.84	Spartan Penn Muni High Yield*	B	C	-5.0	0.55
Prudential Muni-Pennsylvania-A	A	D	-5.9	0.75	Spartan Short-Intermediate Muni*	F	A+	-0.1	0.55
Prudential National Municipals-A	A	D	-6.2	0.69	SteinRoe High Yield Municipals*	D	B	-4.0	0.76
Putnam Calif T-E Income-A	B	C	-6.7	0.69	SteinRoe Intermediate Municipals*	C	B	-3.5	0.71
Putnam High Yield Municipal†	D	A	-4.2	1.17	SteinRoe Managed Municipals*	B	C	-5.5	0.65
Putnam Invest Grade Muni†	A+	D	-7.1	1.40	Strong Municipal Bond*	B	C	-4.6	0.70
Putnam Managed Municipal Income†	A	B	-6.5	1.22	SunAmerica Tax-Exempt Insured-A	D	A	-4.0	1.28
Putnam Mass T-E Income II-A	C	B	-6.1	0.96	Tax-Exempt Bond Fund of America	B	C	-4.8	0.69
Putnam Mich T-E Income II-A	D	B	-5.4	0.99	Tax-Exempt Fund of California	C	B	-5.1	0.71
Putnam Minn T-E Income II-A	D	B	-5.4	1.03	Tax-Free Fund of Colorado	C	B	-3.8	0.53
Putnam Municipal Income-A	D	A	-6.4	0.97	Tax-Free Trust of Arizona	D	B	-5.3	0.70
Putnam New York T-E Income-A	A	D	-7.4	0.76	Tax-Free Trust of Oregon	D	B	-3.7	0.68
Putnam Ohio T-E Income II-A	D	B	-4.8	0.99	Thornburg Limited Term Muni-Calif	F	A	-2.1	1.00
Putnam Pennsylvania T-E Income-A	C	B	-4.8	0.91	Thornburg Limited Term Muni-Natl	D	A+	-1.5	0.95
Putnam T-E Income-A	A	F	-7.9	0.74	United Municipal Bond	A+	F	-7.1	0.64
Putnam Tax-Free Income-High Yield	D	A	-5.7	1.45	United Municipal High Income	C	A	-3.1	0.76
Putnam Tax-Free Income-Insured	B	D	-6.0	1.53	USAA Tax-Exempt-California Bond*	B	D	-9.3	0.44
Rochester Fund Municipals	C	B	-8.3	0.75	USAA Tax-Exempt-Intermediate*	D	B	-4.0	0.40
Safeco Municipal Bond*	A	F	-8.3	0.52	USAA Tax-Exempt-Long-Term*	B	C	-7.9	0.38
Scudder California Tax-Free*	A	D	-7.3	0.78	USAA Tax-Exempt-Short-Term*	F	A+	0.8	0.43
Scudder High Yield Tax-Free*	A	D	-8.4	0.92	UST Master Tax-Exempt-Intermediate	D	A	-4.1	0.64
Scudder Managed Municipal Bonds*	A	D	-6.0	0.63	Value Line Tax-Exempt-High Yield*	B	D	-6.9	0.58
Scudder Massachusetts Tax-Free*	A+	F	-6.2	0.07	Van Kampen Calif Ins Tax-Free-A	B	C	-8.6	0.69
Scudder Medium Term Tax-Free*	D	A	-3.5	0.14	Van Kampen Insured Tax-Free-A	B	D	-6.3	0.84
Scudder NY Tax-Free*	A	D	-7.2	0.82	Van Kampen Municipal Income†	A	D	-9.0	0.82
Seligman Calif Tax-Ex-Quality-A	A	D	-8.3	0.82	Van Kampen Penn Tax-Free Income-A	B	C	-5.7	0.71
Seligman Tax-Exempt-Mass-A	B	C	-4.4	0.88	Van Kampen Tax-Free High Income-A	F	A	-4.9	1.03
Seligman Tax-Exempt-Michigan-A	B	D	-4.8	0.83	Vanguard California T-F-Insured L-T*	A+	F	-5.7	0.19
Seligman Tax-Exempt-Minnesota-A	C	B	-2.5	0.90	Vanguard Muni Bond-High Yield*	A+	F	-5.1	0.20
Seligman Tax-Exempt-National-A	A	F	-9.9	0.86	Vanguard Muni Bond-Insured L-T*	A+	F	-5.9	0.20
Seligman Tax-Exempt-Ohio-A	B	C	-4.9	0.85	Vanguard Muni Bond-Intermediate*	B	C	-2.1	0.20
Seligman Tax-Exempt-SC-A	B	D	-6.7	0.85	Vanguard Muni Bond-Limited Term*	D	A+	0.1	0.20
Sierra-Calif Municipal-A	C	C	-8.6	0.79	Vanguard Muni Bond-Long-Term*	A+	F	-5.8	0.20
Sit Tax-Free Income*	D	A+	-0.6	0.77	Vanguard Muni Bond-Short-Term*	F	A+	1.6	0.20
Smith Barney Muni-California-A	B	B	-5.6	0.51	Vanguard NJ Tax-Free-Insured L-T*	A+	F	-5.2	0.20
Smith Barney Muni-Limited Term-A	D	A	-1.4	0.53	Vanguard New York Insured T-F*	A	D	-5.6	0.19
Smith Barney Muni-National-A	B	C	-5.8	0.52	Vanguard Penn Tax-Free-Insured L-T*	A	D	-4.5	0.20
SBS California Municipals-A	B	C	-6.7	0.80	Venture Muni (+) Plus	D	A	2.3	2.07
SBS Income-T-E Income-A	C	C	-6.0	0.84	Vista New York Tax-Free Income-A	B	C	-6.1	0.76
SBS Managed Municipals-A	A+	D	-4.5	0.72	Vista Tax-Free Income-A	A+	D	-7.6	0.58
SBS New Jersey Municipals-A	A	D	-7.0	0.83	Voyageur Colorado Tax-Free-A	D	B	-9.1	0.75
SBS New York Municipals-A	D	B	-6.6	0.78	Voyageur Minnesota Insured-A	D	A	-7.9	0.70
Spartan California Muni High Yield*	D	B	-9.0	0.52	Voyageur Minnesota Tax-Free-A	D	A	-6.7	1.02
Spartan Connecticut Muni High Yield*	B	D	-7.0	0.55					

All data through Dec. 31, 1994. *No load, no 12b-1 fee. †Closed-end. ‡Closed to new investors.
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An unfortunate side effect of the fortunes made on radio spectrum licenses is a new breed of scam artist.

Hang up, Mom!

By Fleming Meeks

ON THE PHONE is Raul Bertran, a boiler room operative from Communications Consulting in Maitland, Fla. He's cold-calling me in hopes of getting me to part with at least \$20,000 for two general partnership units in something called Mid-Tennessee 3rd Mobile Partnership, which owns licenses to operate specialized mobile radio services in central Tennessee. If I send him the money, Bertran assures me, I, too, can build a fortune on the radio waves—become a mini Craig McCaw.

One depressing, but inevitable, by-product of the well-publicized fortunes that have been made by securing radio spectrum licenses from the Federal Communications Commission is the sprouting of outfits like Mid-Tennessee and brokers like Raul Bertran.

Often promoted with TV infomercials, these get-rich-quick

outfits employ agents who troll the phone lines for suckers dying to get a piece of an FCC license to operate wireless cable TV, radio paging, interactive video, low-power television or specialized mobile radio. Commissions paid to the cold-callers typically run 25% to 50%.

People should know better than to bite, but greed often overpowers common sense. A year ago the Federal Trade Commission shut down five interconnected SMR license peddling outfits, the most prominent of which was New York City-based Metropolitan Communications. But only after 4,600 investors had ponied up an estimated \$30 million.

Close the doors, the hucksters come in the windows: John Mattimore, an attorney with the Securities & Exchange Commission in Miami, notes that a Boca Raton-based outfit called Comcoa Ltd. was bringing in \$250,000 a day peddling specialized mobile radio deals before the SEC shut it down this past May. In all, some 1,200 investors got fleeced for over \$17 million.

What of Mid-Tennessee, now after my money? Promoted by a Carson City, Nev. outfit called Advanced Private Networks, it owns specialized mobile radio licenses, mostly in Knoxville, Nashville and Chattanooga. The broker's pitch is simple. Buy into the licenses now, and in 12 to 18 months Mid-Tennessee will flip them to Nextel Communications, the big specialized mobile radio operator that Bertran



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Radio wave scams

characterizes as "the deep-pocket boys."

A quick kill is within my grasp, promises Bertran. "We're talking about investment dollars here being built up 5-to-1, 8-to-1, 9-to-1—without [Mid-Tennessee] going public," he oozes.

"Now, if the son of a gun goes public, you're talking 20-to-1-plus." Thus my \$20,000 investment could soon bring me \$400,000. Bertran suggests I buy in through my IRA to shelter the profits.

One hitch: Nextel has no interest in Mid-Tennessee's licenses for SM channels. Parse the partnership's sales literature, and you'll find that it values Mid-Tennessee's 62 channels at \$482,000 apiece.

"We're talking about investment dollars here being built up 5-to-1, 8-to-1, 9-to-1—without going public," he oozes. "Now, if the son of a gun goes public, you're talking 20-to-1-plus."

But Robert Foosaner, an attorney for Nextel, says Nextel has been offered deals on spectrum in comparable cities around the country at \$4,000 to \$10,000 a channel, and has turned them down. "We weren't interested, so I don't know what anybody would actually pay for it," says Foosaner.

In December the state of California brought an action against Brian Hirsch, president of Advanced Private Networks, for selling unregistered securities and deceptive sales practices which should soon shut down sales within the state. Meanwhile, Robert Bertran, who cold-called me in mid-January, and his colleagues keep digging for suckers' dollars.

Bertran moves to close. "Nobody can guarantee you anything," says, shrugging off my concern about risk. But the potential reward from Mid-Tennessee is so great that he says he has even put his own mother into the deal. Hang in there, Mom, before it's too late!

Arthur D. Lewis
and son Gregory
**Dyed-in-the-wool
optimist.**



his tiny new international airline bucks tremendous odds. But then, who would have given USAfrica a chance to get off the ground?

The little airline that could

by Howard Banks

THE SUMMER of 1990 half a dozen aviation industry veterans decided to create the first U.S. international airline since World War II. The group was led by Arthur D. Lewis, 76, a former operations and financial boss at American and Eastern.

Were these people crazy? Even many established airlines were deep in the red or only marginally profitable. Starting an airline isn't like starting a greeting card company. Getting in the door probably requires at least \$30 million. It requires batteries of lawyers and lobbyists to deal with the bureaucrats who can withhold or deny needed permissions.

But this new airline had a mission.

It would ply the skies between the U.S. and South Africa. It would be called USAfrica.

A contrarian lot, these founders. They looked past the difficulties and saw opportunity. South Africa would soon be back in the international community, and travel there would boom, they figured. Under sanctions, U.S. travelers had to get there via Europe, on British Airways, Swissair or Lufthansa—up to a 36-hour trip, versus 15½ hours direct from Washington, D.C. In November 1991 South African Airways resumed six flights a week from Johannesburg to New York, but no U.S. carrier flew the route.

Arthur Lewis' first step was to ask

the U.S. Department of Transportation for rights to fly from the U.S. to South Africa. Bilateral aviation agreements control which of each country's carriers may fly, and how many flights a week. In this case, the U.S. was limited to the same six round-trips a week as the South Africans were flying. The DOT gave USAfrica three of the six flights, and awarded the other three to United Airlines.

Rights in hand, Lewis approached the Federal Aviation Administration in early 1993 for a certificate to operate an airline. These aren't easy to obtain. Among other things, the suppliant must prove he can operate the proposed schedule for three months without making a penny in revenue. As if that hurdle wasn't steep enough, USAfrica's \$30 million financing plans had evaporated when GE Capital pulled out following the massacre at South Africa's Ciskei black homeland.

At the bleakest hour, a stroke of luck: As a result of deteriorating relations with its pilots, United dropped its plans to expand service to India and South Africa. USAfrica was suddenly able to pick up all six U.S./South Africa weekly frequencies, adding to the carrier's potential value.

Then another break: Through his golfing partners, Lewis met Donald

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(1/95)

USAfrica

Keller, a former airline analyst who is a senior vice president with Keystone Custodian Funds Inc. Keller understood USAfrica's potential, and persuaded four Keystone funds to buy \$30 million of the carrier's paper.

The clock was ticking. USAfrica was just days away from its June 1, 1994 deadline to start operating, as set forth in the FAA's provisional operating certificate. With the Keystone money, Lewis was able to lease two 236-seat McDonnell Douglas MD-11s that American Airlines had parked in the desert and launch USAfrica's scheduled service as the clock struck June 1.

USAfrica is now in the sky but not out of the woods. After five months of operating, the airline admits it was

Gregory Lewis says he hopes to turn an operating profit by the second half of 1995. That's optimistic.

filling only around 40% of its seats with fare-paying passengers. Chief Executive Gregory S. Lewis, 43, the cofounder's son, admits that to break even USAfrica will have to attain load factors in the high 50s consistently. He was gratified when they rose to around 60% during the peak holiday travel season.

USAfrica is still weak in marketing. It needs to come under the umbrella of a reservation code-sharing arrangement with a major carrier. Best candidate: United, which has a large number of connections at Washington's Dull Airport, where USAfrica operates. United, now owned by its pilots, is interested, another possibility is Delta, which has long had a marketing effort under way in South Africa.

USAfrica's next big hurdle will be raising new capital. It will need at least \$20 million, to be used to cover operating losses, to lease a third aircraft and to expand operations in Ghana and Zimbabwe.

Gregory Lewis says he hopes to turn an operating profit by the second half of 1995. That's optimistic, but then only a dyed-in-the-wool optimist would have given USAfrica a chance to get off the ground in the first place.

GOVERNMENT'S DIRTY LITTLE SECRET



Politicians tell us that the national debt is over \$4 trillion and the only way to reduce it is by raising taxes. They also tell us that America is in the midst of a social and economic crisis that demands more regulation. On issues ranging from health care to unemployment to the environment to high tech industry, they use such trendy terms as "managed competition," "economic stimulus," and "revenue sharing," but in every case what they are telling us is that we need more big government.

But do you know government's dirty little secret? It is this: *Federal, state and local bureaucracies in the United States are already consuming 45 percent of the national income.* And it isn't just money the government is confiscating—it is confiscating our freedom, too. Between

1988 and 1992 alone, *14,000 pages of new regulations* were added to the Federal Register.

When politicians tell us that more taxes and more regulations are the answer, who do they think they are fooling? Ronald Reagan had it right all along: Government is the problem, not the solution.

We must restore stringent limits on government. To accomplish this, we must start relying on ourselves instead of politicians. Only when we recover our responsibility for our own lives and our own problems will we be able to say "no" to more big government.

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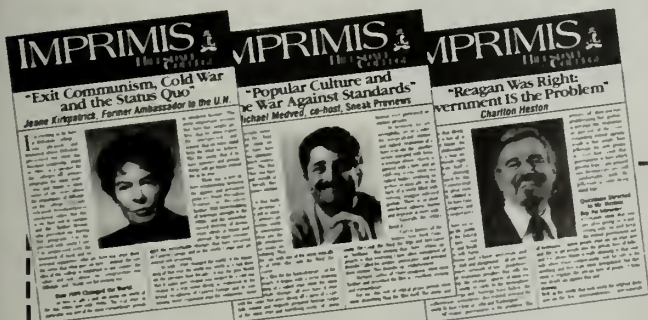
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Poor Henry Ford. The foundation bearing his name finances causes that he would loathe. Here's how you can prevent that from happening to your own family trusts or those you are involved with.

Donor beware

By Brigid McMenamin



Henry Ford (1863-1947) would be appalled at his foundation today

"I do not believe in giving folks things," Ford once said.

"I do believe in giving them a chance to make things for themselves."

HENRY FORD believed in capitalism and self-reliance. But the \$6.6 billion foundation that bears his name is now notorious for backing left-wing causes, so much so that Henry's grandson, Henry Ford II, openly disowned it. A pet project: the Center for Community Change, a Washington, D.C. outfit that promotes big government and higher taxes.

"The Ford Foundation routinely violates every charitable principle of Henry Ford," writes Martin Morse Wooster in *The Great Philanthropist and the Problem of Donor Intent* (Capital Research Center, 1994.)

Andrew Carnegie deplored government welfare programs, which he thought sapped people's initiative. Today the \$1.1 billion Carnegie Corp. spends most of its money on social engineering—including granting \$700,000 in fiscal 1994 to the Children's Defense Fund, a Hillary Clinton favorite that advocates more spending on government services.

It's a free country, and all these causes are entitled to their advocacy. But would *you* want your money to support them? Today many people with as little as a few million dollars are setting up charitable foundations so their money will promote things they believe in even after they die. For them, there's a clear lesson in the misappropriation of the Ford and Carnegie money.

Be specific, very specific, when you set up a trust. Clearly spell out your goals, says Paul Rhoads, an estate planning lawyer with Chicago's Schi Hardin & Waite. Rhoads is coauthor of *Starting a Private Foundation: Carrying Out the Donor's Intent* (The Philanthropy Roundtable, 1993) worth reading if you are thinking setting up a charitable trust.

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Andrew Carnegie (1835-1919) deplored government handouts
But that's mostly what the foundation bearing his name today supports: The steel magnate certainly wouldn't lavish hundreds of thousands of dollars on the Children's Defense Fund.

Many lawyers have you sign something that says the foundation is for "charitable, religious, scientific, literary or educational purposes." That's the "purpose clause" stating what the foundation is supposed to do. Watch out.

That nice-sounding generality will satisfy the Internal Revenue Service for purposes of tax exemption. But it also permits future trustees to use your money almost any way they please. So insist on specific language that clearly limits your intent. Such as:

"Preference shall be given to support nonprofit educational institutions whose principal mission is to promote an understanding and appreciation of free market economic systems."

Many experts will tell you you're better off using a not-for-profit corporation rather than a trust. But it's

easier for future generations to tinker with articles of incorporation than with a trust instrument, which needs court approval to change.

So if you want to avoid what happened to Henry Ford and Andrew Carnegie by keeping control, you're better off with a trust. That's the advice of George Soros' estate lawyer, William Zabel, a partner with the New York firm Schulte Roth & Zabel and author of *The Rich Die Richer—And You Can Too* (William Morrow & Co., 1995).

Beryl Buck, a California oil heiress, died in 1975, leaving under \$10 million in stock to care for needy folks in Marin County. Her trustees agreed to do just that, but when the Buck Trust grew to \$360 million, they reneged on their promise. In 1984 they asked a local court to set aside Buck's wishes and let them expand their realm be-

yond Marin. But the judge appointed new trustees who were willing to respect Buck's wishes.

Of course, even a trust can be abused. In 1965 New York artist Joseph Cornell decided to set up a foundation when he died. He signed a will naming his own lawyer and a friend as executors of his estate and cotrustees of the foundation.

Cornell preferred that the trustees sell his art collection and give the proceeds to charity. What Cornell, who died in 1972, didn't factor in was that trustee fees are based on trust income.

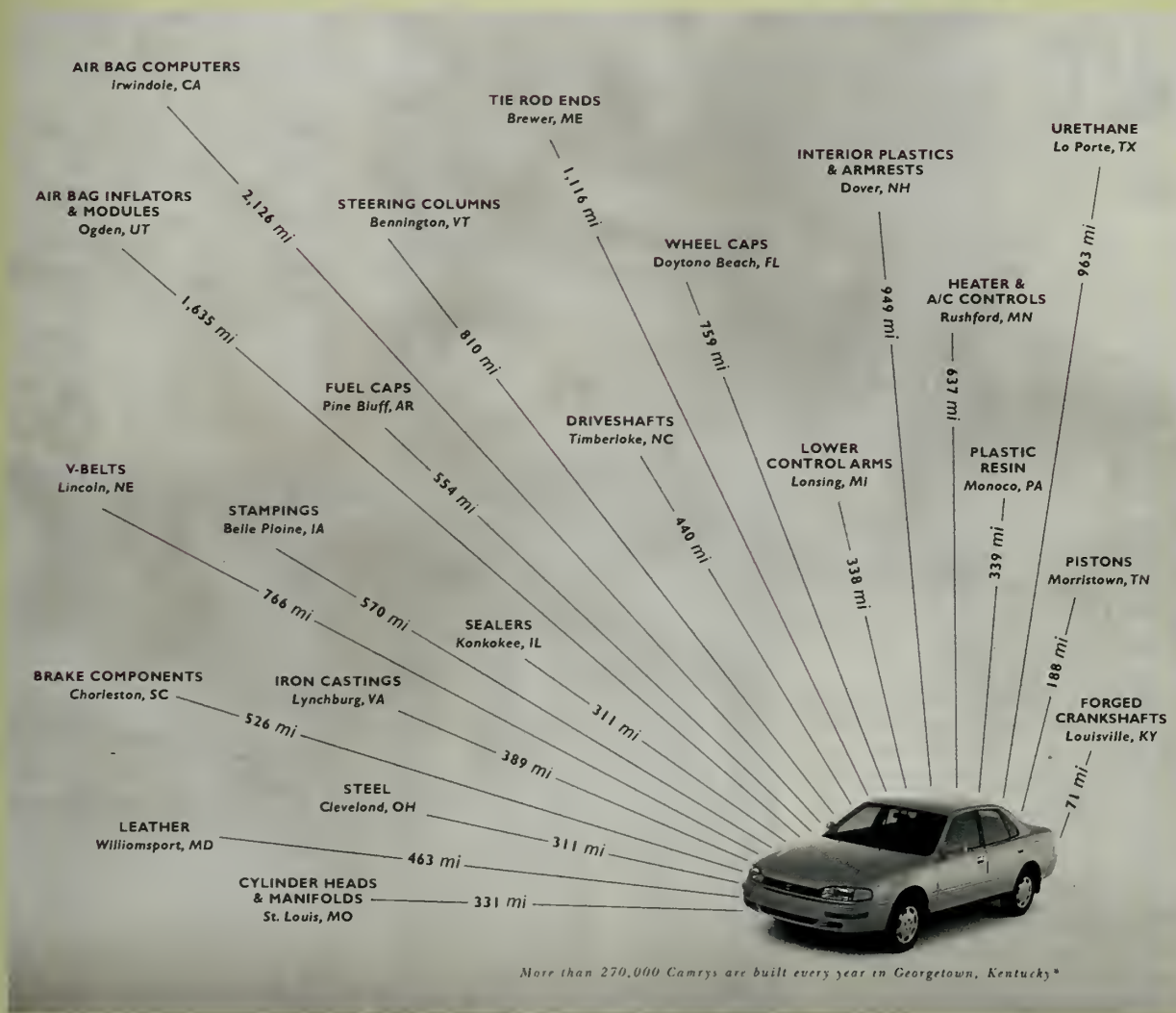
Over the years Cornell's trustees sold more than \$9 million worth of art and gave another \$7 million worth to museums. But they gave only \$1,000 to charity and aggressively invested the rest. By the end of 1993 the foundation was worth more than \$34 million including \$21 million in cash and securities generating more than \$150,000 in trustees' fees each year. The New York Attorney General filed suit this past summer to force the trustees to start giving more money away.

To avoid such problems, Milbank Tweed partner Carolyn Clark suggests drafting the trust to include some safeguards, like paying the trustee a flat fee. Better yet—advice no lawyer would suggest—don't name your lawyer a trustee.

To make absolutely sure that your foundation doesn't stray, limit its lifetime. Before his death in 1982, chemical magnate John M. Olin told his trustees to wind down his foundation before its funds could be diverted to unwanted causes. So in 1993 the \$120 million John M. Olin Foundation announced plans to spend itself out of existence within 15 years. Several other big donors have done the same thing.

Victoria Bjorklund, a partner at Simpson Thacher & Bartlett, suggests another safeguard: Specify that if the trustees can't or won't abide by your wishes—let's say they can't find any needy orphans in your town—all of your money will automatically go to an organization whose work you approve. The Salvation Army, for example. Then let the fallback outfit know that you've so named them. Knowir there's an alternative beneficiary or there ought to help keep your unknown future trustees honest. ■

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The panjandrums at the United Nations are passing the hat to finance a fancy 50th-birthday party. With all those hungry kids in the world and the suffering Bosnians?

A tough sell

MARK THESE forthcoming scintillating happenings in your datebook: Feb. 9, World Views, Canadian Voices; Mar. 20, Liechtenstein Initiative-Research Program on Self-Determination; Apr. 19, Maintaining International Peace—Argentina's Contribution; and on July 22, the can't-miss 80th World Esperanto Congress. In Esperanto.

It was 50 years ago when statesmen of the world signed in San Francisco on June 26 and then ratified in New York on Oct. 24 the charter of the United Nations. Naturally there has to be a celebration. But don't call it a celebration. "There will be no 200 Elvises," emphatically states Denver Frederick, director of the UN50 campaign at the national United Nations Association, a privately funded support group.

The giant egos who inhabit those shining towers in mid-Manhattan aren't about to let the event go without taking bows. This was, after all, a great moment in human history. To make sure people don't overlook it, the United Nations Association has engaged the high-priced public relations firm of Burson-Marsteller to remind them. But it's a tricky business. The doings must strike just the right note. No frivolity, mind you. No loud self-congratulation.

According to research done by Gallup and the Roper Organization, roughly 80% to 90% of Americans back continued U.S. support for the U.N. But at any given time only 34% to 54% say they approve of the job the U.N. is doing. The U.N.'s much publicized Bosnian bumbling, along with

other fumbles, helped to send that approval rating to around 45%, according to the most recent Roper poll. "[Secretary General Boutros] Boutros-Ghali's turning tail in Bosnia was not a shining moment for us," says the U.N. Association's Frederick.

"I always refer to this as a commemoration, not a celebration, but of course it's a celebration, too," says Gillian Martin Sorensen, the U.N. undersecretary general in charge of the global UN50. Which probably means no fireworks at the gala ceremony in New York on Oct. 24. And if the U.N. does decide to spring for Roman candles, they will be "modest" ones, explains Frederick.

Even modest commemoration cost money. So both the United Nations itself and the United Nations Association, which has a contract to help on UN50 in the U.S., are beating the bushes to raise bucks to pay Burson-Marsteller and fund the other activities. None of the money for UN50 festivities is to come from the U.N.'s operating budget—that would have been a Bosnia-size public relations fiasco.

It hasn't been easy. Originally, the goal was to find 12 companies to



ough up a total of as much as \$20 million for global sponsorships and exclusive rights to use the UN50 logo for promotional purposes. But of course, this being the United Nations and all, not just any company could apply. Which meant no distillers of booze, no forgers of cannon, no de-boilers of forests and a host of other o-nos woven into a web of virtue so tight few could slip through.

More than a bit presumptuous, and so far no more than a smattering of companies have signed on. "It's been a really tough sell," concedes Frederick. "The U.N. is a controversial institution. This is not like the Olympics." As of now the U.N. Association still hopes to pull in \$10 million from U.S. sources, while the United Nations claims it has managed to raise over \$10 million.

So far, the largest sponsor is Goldstar, a South Korean consumer electronics maker that kicked in \$3.5

AP/Wide World



U.N. troops marooned in Bosnia

U.N. approval ratings rarely top 54%, but peace-keeping fumbles like Bosnia and Somalia have sent them to around 45%.



UN/CTO Photograph from United Nations

Many Dreams



Common Future



GoldStar
Proud Global Sponsor Of The UN 50 Anniversary

Signing the U.N. charter (left); Goldstar's anniversary billboard
"It's been a tough sell to find sponsors. This isn't the Olympics."

million in cash. Goldstar is erecting billboards in 14 cities around the world with terse homilies like, "Many people, one hope" and "Many dreams, common future." Goldstar is also building kiosks in U.N. outposts like Geneva and New York, where it will promote its new CD interactive system with an on-screen U.N. history lesson. Not least, it will pair the UN50 logo with its own in airports where Goldstar also sponsors luggage carts.

Felissimo, a Japanese direct mail and retail company, is another global sponsor. Felissimo will use the connection to run an international design competition utilizing local weaving

traditions and textiles, followed by fashion shows and exhibits.

And of course, you can't have a celebration—er, commemoration—without commemorative items. So you'll get UN50-licensed scarves, courtesy of Hermès, and UN50 watches, courtesy of Swatch. Other deals are in the works. "But you won't see UN50 playing cards or beer steins," assures Denver Frederick.

Big Bird, the giant yellow *Sesame Street* character, will visit the United Nations sometime this year. No date has been set.

It all comes to a head during the week leading up to Tuesday, Oct. 24—United Nations Day. Dinners, anniversary concerts by the New York Philharmonic and the Vienna Philharmonic, movies, teach-ins, TV broadcasts. And speeches—many, many speeches. "There could be as many as 160 heads of state coming to New York," says Frederick. His advice to New Yorkers: "Get out of town."

—J.L. ■

"Mosam" has some great stories about the Chesapeake Bay.

If you want to know how to build a Deadrise workboat, or how the crabs are running, or even about the muskrat population 40 years ago, all you have to do is spend a few minutes with Elmer "Mosam" Ford.

"Mosam" knows all the stories. And if he embellishes them a little, well, that makes them all the better.

The U.S. Environmental Protection Agency also has some things to say about the Bay. And while these stories are more serious than "Mosam's," they need to be told, too.

The stories use computer models and simulations to predict the effects of human interaction with the Bay. They help EPA decision-makers determine how to protect this national treasure from chemical and toxic pollutants. The same techniques are also being applied to safeguard other precious national resources.

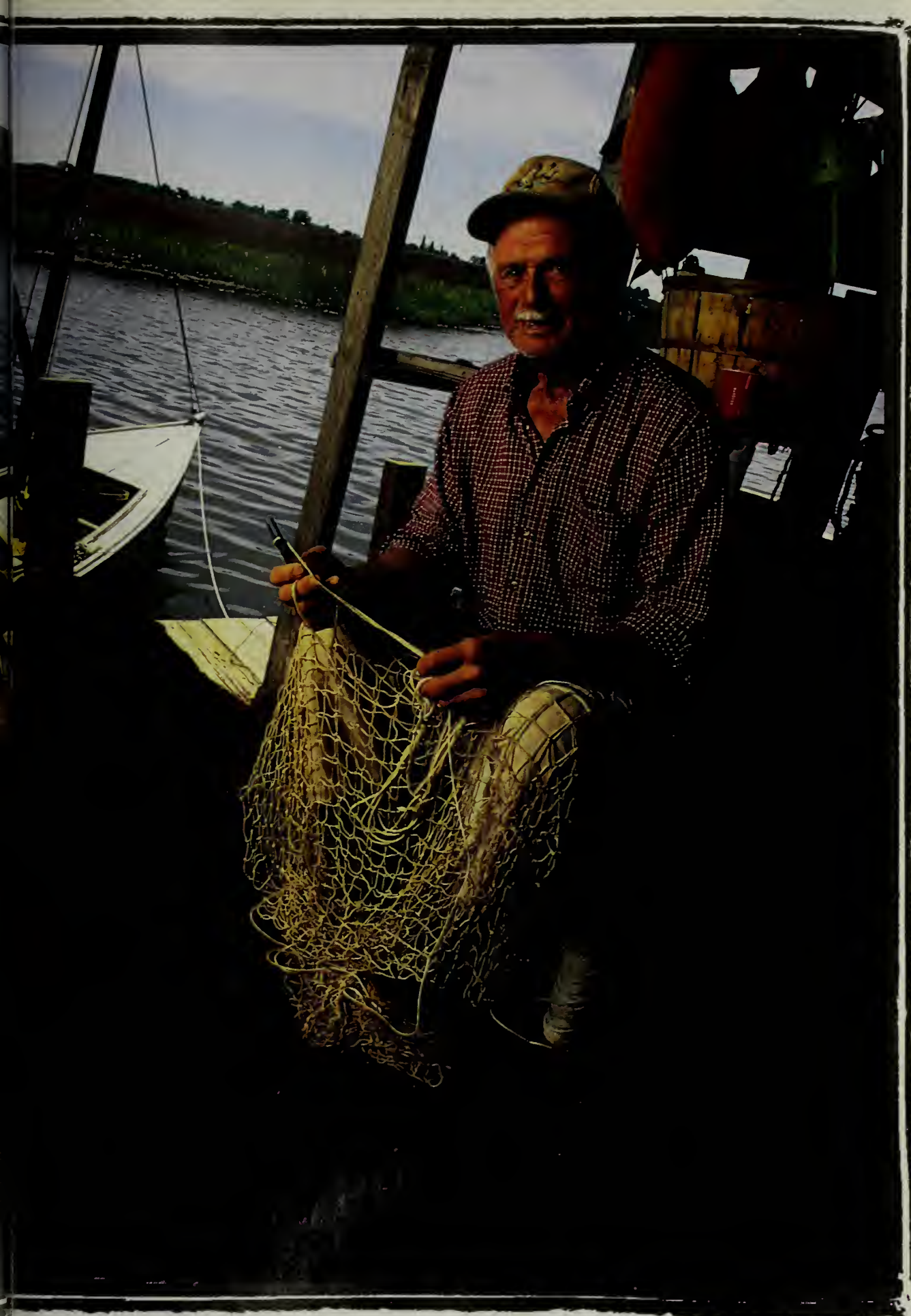
It takes a lot of teamwork to keep the environment clean. Martin Marietta is proud to help by processing vital information for the EPA using the most sophisticated computing resources available. Together, we all can help keep America beautiful.

And that's a story "Mosam" loves to tell.

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Canandaigua Wine? It's a company, not a brand, but its growing army of labels is beginning to push the powerful Gallos in the market for low-priced wines.

Who's afraid of the big, bad Gallos?

By Randall Lane

THE E&J GALLO WINERY has dominated the American wine business for over three decades. To say the Gallos dominate the industry is to put things mildly: They have a reputation for being mercilessly brutal with distributors, suppliers and competitors. So when a small trade publication called *Wine Business Monthly* surveyed 300 top industry executives to name the most powerful people in the wine business, it was no surprise to see Ernest Gallo on the list. What was surprising: He came in second. The winners, by a hair: Marvin and Richard Sands.

Marvin and Richard are a father-and-son team who run the Canandaigua Wine Co., situated in upstate New York's Finger Lakes region. You've likely never heard of them or their company. But if you frequent wine stores or read advertisements, you certainly know many, if not most, of their 30 national brands, which include Almaden, Inglenook, Taylor California Cellars, Manischewitz and Paul Masson wines, Cook's, J. Rog t and Great Western champagnes.

Canandaigua's brands total 21% of the domestic table wine market, making it runner-up to Gallo's 32%. In domestic champagne, Canandaigua has 32%, in dessert wines 50%.

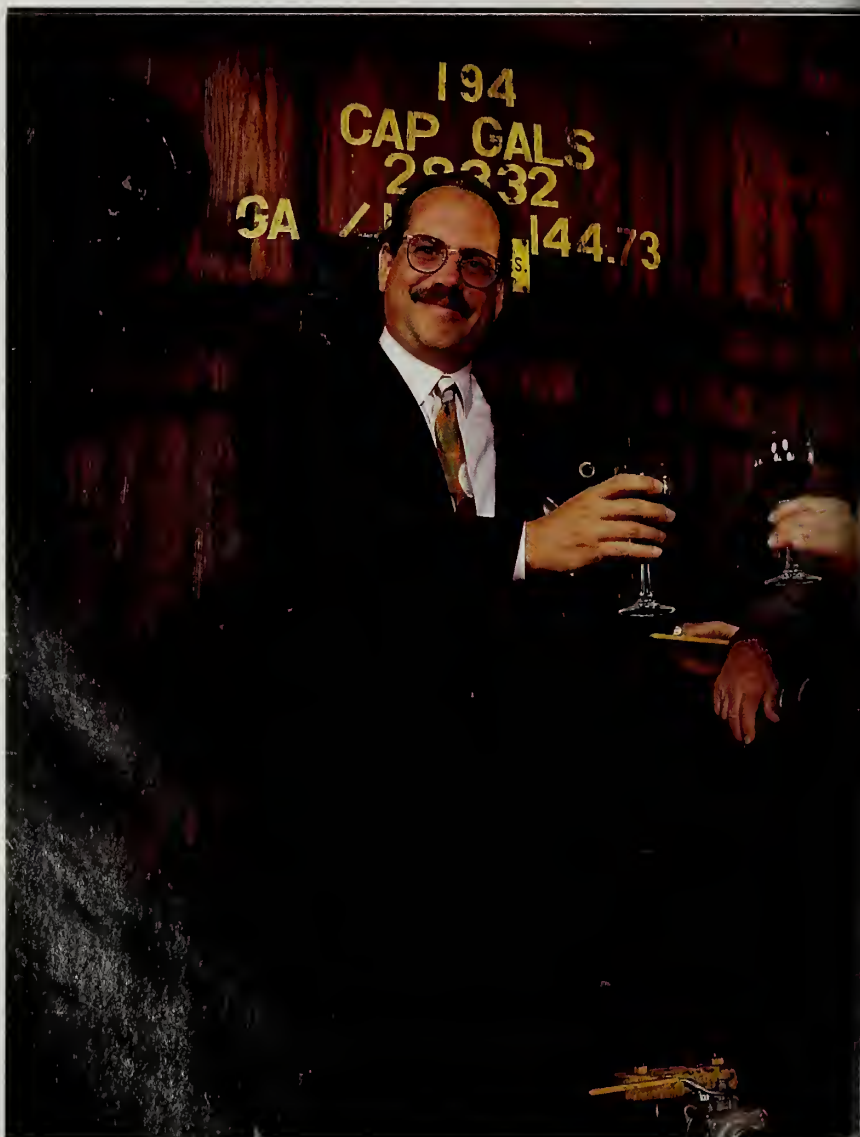
Canandaigua—estimated fiscal 1995 revenues \$900 million, to Gallo's \$1 billion or so—is also a growing force in liquor and beer. Through its Barton subsidiary, it owns eight major

spirits brands, including Barton's Gin and Barton's Vodka. And it's the country's fourth-largest beer importer, marketing brands like Corona and St. Pauli Girl.

And talk about growth. A scant four years ago Canandaigua's revenues were one-fifth this year's level. In the fiscal year ending Aug. 31, 1995 it will probably show an operating profit of more than \$90 million, over six times the level of four years ago.

This growth has not come internally, of course. The alcoholic beverages industry has been declining slowly for the past decade. In the face of this slow erosion, Canandaigua's chairman, Marvin, 71, and son Richard, now chief executive, have gone on the offensive.

In the past 18 months alone, Can-



Canandaigua has spent over \$400 million buying Barton, Vintners International (Paul Masson and Taylor) and the Knudsen and Inglenook brands from Heublein and Metropolitan's Heublein division. "We've been buying brands that took 100 years to build," says Marvin Sands, a 50-year industry veteran. The Sandses have been buyers in a buyers' market. There aren't many companies looking to get into the low-end segment of the wine and spirits business—especially as wine consumers continue to migrate from low-quality wine to higher-quality, higher-priced varietals. (Gross margins can be 70% for premium wines, but average only 30% at the low end.) Several companies, however, have been trying to get out. Gallo, the most logical acquirer, has remained on the side-

lines. Still family-owned, it has long preferred to build brands internally. Why? Gallo has had a brush with the Federal Trade Commission, and the crusty family that owns the business probably doesn't want any more.

Into this gap step the Sandses. But it took them a long time to get to where they could think big.

In 1945, just out of the Navy, Marvin Sands bought a Canandaigua, N.Y. sauerkraut-factory-turned-winery for \$60,000. For ten years Canandaigua Industries, as it was called, struggled, selling fruit wines in bulk to local bottlers, who would then sell them under their own brand names.

But as California companies such as Gallo and Italian Swiss Colony began creating national brands, Sands realized that the days of selling bulk wine

ing: Company expenses went up more than fourfold over the same period. When the cooler craze crashed suddenly, Canandaigua suffered a cumulative operating loss of \$20 million in 1987 and 1988.

It's the smart business person who learns from setbacks and turns them to his advantage. The wine cooler episode, though it ended badly, showed the Sandses how easily their distribution network could handle a lot more volume. Richard Sands, who has a Ph.D. in social psychology from the University of North Carolina, began looking for established names to push through Canandaigua's network.

At first it was small bites, \$10 million and \$20 million purchases, buying small, well-known wine brands like Manischewitz, Widmer's, Italian Swiss Colony. It worked: As sales volume swelled, distribution overhead stayed relatively steady and profits rose. "We realized we could be more aggressive," Richard Sands says.

At last, in 1991, Canandaigua made its first major purchase, buying Guild Wineries & Distillers (Cook's champagne) for \$60 million. Then came three purchases in 1993 and 1994—Barton for \$140 million, Vintners for \$149 million and Almaden/Inglenook for \$130 million.

Where did the money come from? About \$135 million from two equity offerings, one in 1992 and one in 1994. But also from borrowing. Canandaigua's debt now stands at \$285 million—versus \$318 million in equity. But because the acquisitions have been profitable, cash flow has more than kept pace and covers interest payments by a four-to-one ratio.

The buying will continue. "They can't win without sufficient mass, and that's what they're buying," says Tom Pirko, president of Bevmark, Inc., a New York-based beverage consultant. "They're still way, way behind," he says, referring to Gallo's dominance of the retail system.

But at the moment, the Sands family is sitting pretty. Canandaigua's Nasdaq-listed stock has doubled over the past two years and now sells at 36¼, about 16 times probable 1995 earnings. The Sands family owns 23% of stock, worth around \$170 million.

Gallo, here we come.



Canandaigua Wine's Richard and Marvin Sands; a bottling line for "Richards Wild Irish Rose"

Long dependent on one national product, the Sandses now control 30.

to local bottlers were numbered. In the early Fifties, Sands tried to create a brand himself. He failed with King Solomon kosher wine and a Sands line. He finally succeeded with a flaming-red blend of dessert wine in 1954 named Richards Wild Irish Rose.

Wild Irish Rose more or less became Canandaigua, representing more than 90% of the company's tiny sales during the early 1960s. On that base Sands slowly expanded, acquiring 11 small wineries through 1984.

Ironically, Canandaigua broke into the big time on a gamble that failed. In 1984, when wine coolers—fruit-flavored, low-alcohol wine—had become hot, Canandaigua jumped in, pushing Sun Country Coolers, and sales almost doubled, to \$173 million, by 1986. But the trendy wine cooler business required big advertis-

Surgeons usually replace bones with fragments harvested from the patient's own hips. Richard Lagow has a better way: He makes his bones from scratch.

Rebuilding bone with less pain

By Philip E. Ross

LAST YEAR Denver surgeon Steven Nelson treated a man who had much of his lower jaw and chin shot away. Nelson had to use a titanium mesh tray, screwed onto the patient's jaw. "We packed it with his own bone, taken from his hip," says Nelson. "In nine to ten months, hopefully, the bone will set and we will be able to take the tray out."

It's a painful, complicated way to reconstruct a jaw, but for now, the only good option. As a permanent replacement for lost bone, at least in most parts of the body, titanium usually won't do because it doesn't integrate well with the body's soft tissues over a long period. Cadaver bone will fit in well enough, but it must be sterilized and stripped of immunologically incompatible proteins. That treatment costs it much of its strength. So most people who undergo bone replacements in stress-bearing areas like the jaw, the joints, the legs and the arms must undergo autografting—an extra procedure that adds risk and piles on the postoperative pain.

Surgeons would love to have synthetic bones that the body would accept as real. A chemistry professor at the University of Texas in Austin seems to have the solution. If his backers get federal approval, the product could be on the market in a few years.

Biomedical engineers have long tried to bake artificial bone out of hydroxyapatite, the calcium phosphate compound that is the principal ingredient of most bones (and all of the enamel in your teeth). It's no problem getting the mineral—you

just dig it out of the earth—but ceramicists can't work the stuff. At fusion temperature, around 1,200 degrees Celsius, its molecules lose hydrogen and oxygen as steam. What's left behind is brittle.

Chemist Richard Lagow, 49, has a different approach: Don't start with the mineral compound, start with simpler ingredients. "We chemically synthesize hydroxyapatite from things as simple as calcium metal, calcium hydroxide and phosphoric acid," he says. "The largest size we've made is about 5 inches by 8 inches and 2 inches thick—pretty much a brick. The most intricate thing we've carved is a complete human temporal bone. That's the bone [above the jaw] near the ear and skull. There's no way to replace it now."

The ersatz bone is being developed by OsteoMedica Corp., an Austin startup for which Lagow is chairman of the board. The firm is largely financed by Kimball Chen, 43, a New York businessman and venture capitalist with diverse holdings that range from biotechnology to a natural gas shipping fleet.

OsteoMedica's material can be made utterly pure, without contaminants that would hinder integration with the body's own tissues. Any degree of porosity is possible: Swiss-cheese style, for quick penetration by blood vessels and new bone, or dense, for brute strength.

The body not only tolerates the implanted objects but integrates them into its own tissue quickly. Given time, it even treats the foreign mineral like family. Osteoclasts chip away at the fake bone with their acidic



secretions, making craters into which concrete crews, called osteoblasts, lay down new bone. That's just what the body does with its natural bone. Sur remodeling repairs microscopic cracks before they can develop into bigger cracks. That explains why natural bone outlasts prostheses made even of space-age alloys.

For several years Lagow has had dogs running around on legs containing segments of his concoction. More recent studies have demonstrated applicability to jaw implants and spinal fusions, two important applications. (Surgeons sometimes fuse a joining vertebrae to treat pinch nerves.) OsteoMedica is considering undertaking human trials in Australia and Britain, where the regulatory hurdles aren't so high. Later it will take on the tough Food & Drug Administration in the U.S.

However, the many virtues OsteoMedica claims for its material must



OsteoMedica's Richard Lagow and a postoperative pooch

His ersatz bone is strong enough for a dog to run around on, yet familiar enough to the body to live in harmony with its tissues.

compete against the hard fact that a competing product got FDA approval in 1992 and began selling in 1993. Ceripore International, of Irvine, Calif., chemically treats coral to get hydroxyapatite. The coral's natural pore structure provides a way in for body tissues, aiding integration, but it limits strength. It has therefore been approved for only low-stress applications, such as fractures at ends of leg bones, like the thigh. For now, the best long-term hope for patients who need tough bone seems to be Lagow's invention.

Joel Barlow/University of Texas at Austin

X ray (far right) shows a dog's leg, its implant fixed by a temporary bridge;

temporal bone of skull
OsteoMedica molds
shapes as intricate as
temporal bone.



Richard Lagow/University of Texas at Austin



Abolish the FCC

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Orwell's Revenge*; his E-mail address is 72643.2211@compuserve.com.

NEW ZEALAND did it, which proves it's possible. We probably won't. Still, a Congress that promises to reinvent both government and telecommunications law should think big.

We can start by abolishing the notion that there's some compelling reason and overarching logic behind the Federal Communications Commission we've got. The commission is in fact a hodgepodge of responsibilities and powers, accumulated over the years much as Congress accumulated committees, caucuses and free ice service. There never was a master plan. The FCC just grew.

The first radio stations weren't licensed at all. When interference became a problem in the 1920s, courts began working out sensible, common-law property rights in spectrum. Before they could finish the job, Congress enacted the 1927 Radio Act, creating a commission that turned into the FCC.

The commission zones the airwaves: so much bandwidth for television, so much for cellular telephones. That job should simply be abolished. The market can decide how to use spectrum most productively, once spectrum is placed in private hands. The FCC also has the job of placing it there. It licenses the station that carries Rush Limbaugh and not, say, one that would carry Howard Stern. The procedure is a rancidly political "public interest" hearing.

Lotteries have been tried, too.

More recently, spectrum has been auctioned for cash, raising billions for the Treasury. We already have a Department of the Interior that sells off oil, gas and mineral rights. Let Interior sell spectrum as well. Private owners can then go after any trespassers in court, much as they privately evict unauthorized cars from their parking lots. Economists have been urging this for decades.

The 1934 Communications Act swallowed the 1927 Radio Act whole and added a greasy slab of new law to regulate interstate phone companies. Nobody runs a new phone wire from New York to Newark, or removes an old one, or delivers a new service over it, without FCC say-so. That screening isn't needed. We can open entry to all, and let the states police public rights of way. The FCC regulates interstate prices, too. It can stop: Competition will set prices instead. The FCC regulates what local carriers charge interstate carriers to originate and terminate calls. That responsibility can be returned to the states.

Technical types at the commission police the interfaces between local and long distance phone companies, local and cellular, terminal equipment and local, and so on. Industry committees could work out these things under compulsory bargaining rules. Provide for quick resolution in an expert court if negotiations break down. Cable companies worked out access to telephone poles that way after Congress enacted the Pole Attachment Act in 1978.

Satellite regulation is covered by a 1962 law that established Comsat and empowered the FCC to regulate it. Comsat has since been privatized. We can deal with the assignment of satellite spectrum and orbital parking slots in the same way as back on earth—through auctions administered by the Department of the Interior. We can deal with international organizations through the State Department.

Cable can be handled like telephone. Technical standards, equipment interfaces, and so on, go to

industry committees. We get rid of federal and state entry barriers, which currently impede telephone companies, apartment building landlords, direct satellite broadcasters and "wireless cable" companies from competing freely against ordinary cable. The blossoming of new competition will then let us tear down the rickety edifice of price regulation established by the 1992 Cable Act.

The FCC also polices countless structural rules that keep apart phone and cable, cable and broadcast, television and radio, broadcast and newspapers, networks and local stations, and so on. Get rid of them. The antitrust laws already forbid anticompetitive combinations, and every major merger has to be reviewed by the Department of Justice. If one player somehow grows too fat anyway, Justice can hunt it down and carve it up. It has done so before.

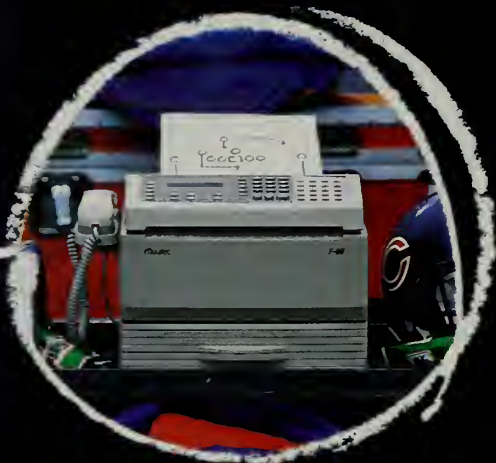
Finally, the FCC administers subsidies to promote cheap phone service in rural areas and for the poor. If the country really needs welfare cyberstamps (or a laptop computer credit), they can be administered through welfare agencies. They could be funded by spectrum auctions and a mod-

The Department of the Interior sells oil and mineral rights. Let it sell spectrum as well.

tax on all telecom receipts.

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With the modem your computer is connected to the world. Also, the world is connected to your computer—and may be snooping on your hard drive.

Big Modem is watching

By Nikhil Hutheesing

NEXT TIME you try out a new topic on your on-line service, it will probably pause for a few moments to download graphics files onto your computer. Without any intervention—or even conscious permission—by you, the service's host computer commandeers a slice of your hard drive and deposits data onto it. All this to make your future journeys through cyberspace quicker and prettier.

Wait a minute. If a faraway computer can write to your drive, what's to stop it from reading? Couldn't it check out the size of your hard drive or the brand of your word processor? If it were mischievous enough, couldn't it capture the checking account balance recorded in your home finance program?

Such dire possibilities are the buzz of the paranoid sector of the on-line community. Wouldn't Microsoft be tempted to boost its marketing department by putting some kind of snooping powers into the on-line service forthcoming with its Windows 95 operating system?

Microsoft denies any such intention. "We are very mindful of the church-and-state aspect of all this," says Russell Siegelman, the general manager of Microsoft Online Services Group. Prodigy says it never looks at information from a customer's computer, other than to check the amount of free space available. Likewise CompuServe and America Online.

But people who use modems are not wrong to be fearful. A little spying did take place last year at Central Point Software, now a division of the very respectable Symantec Corp., a firm that sells housekeeping programs

called "utilities." Beaverton, Ore.-based Central Point picked up data about customers' computers via an on-line registration form.

It was all inadvertent, insists Gary Thomassen, Symantec's director of marketing. He says the data were unwittingly collected and never even made it into Central Point's permanent records.

How did this snooping come about? Thomassen points a finger at Pipeline Communications, an Atlanta-based company that produces registration software and market research tools. In distributing its PC Tools for Windows, Central Point included registration software developed by Pipeline. The software allowed customers to enter data on an electronic registration form, click on "send" and thus launch the information via modem to Pipeline. Pipeline then for-

warded it electronically to a Central Point mainframe.

So far, so good. But the registration software also gathered descriptions of the user's system—the microprocessor, the version of DOS and Windows, the type of display and mouse and the amount of free space left on the computer's hard drive.

When your modem lights up, you probably don't have any way of knowing just what is being sent over the phone line. The Pipeline spy might never have come to light but for the fact that the registration routine created a text file on the customer's computer detailing his equipment before forwarding this text file over the modem connection.

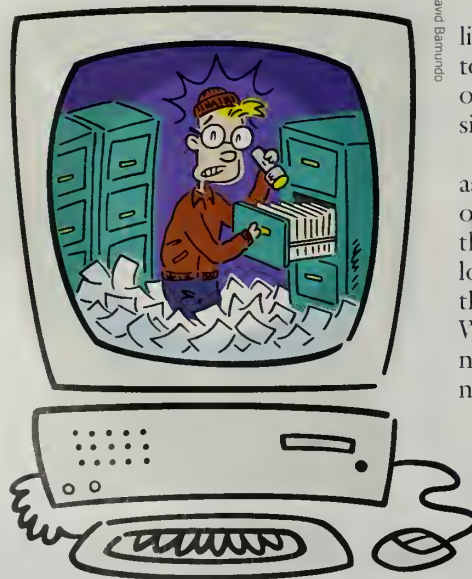
Alert PC Tools customers noticed the odd text file and squawked about it on CompuServe's bulletin board. Thomassen says that about 10,000 personal computers were scanned during the registration process before his company heard complaints and called a halt to it. Central Point had Pipeline change the software so that it would no longer collect this information.

While Symantec Corp. insists that it hadn't been aware of the snoop function, Pipeline makes no bones about its intentions. The idea is to help clients understand their customers' needs. "To develop new products, they need to know what their customers have from a software, a hardware and a technical support standpoint," says J. Bradford Biddy, director of Pipeline's product marketing.

Biddy says that at least one of Pipeline's clients is now using the feature to scan its users' hard drives—only after getting each user's permission. He won't name the client.

What if you use your on-line service as a gateway into the big, wild world of the Internet? There lurk dangers that make the Central Point brouhaha look trivial in comparison. There are thousands of home pages on the World Wide Web. While you are scanning one, the operator could be scanning you.

Know your customer, goes the marketing adage. For modems, the new adage is: Know what's on the other end of the phone line. If you can't trust the operator, don't connect to it.





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How do you get doctors to pay attention to costs without interfering with medical decisions? Try leaving printouts on their desks.

Knowledge is money

By John R. Hayes

WHEN family practice doctors join Mid Atlantic Medical Services, they get a contract and an education. By contract, Mamsi, a Rockville, Md.-based health maintenance organization, agrees to pay them a flat monthly fee per patient of about \$10, varying slightly by age and sex, regardless of how often they see those patients. The education consists of a stream of computer printouts detailing costs their patients impose on Mamsi.

Computer printouts. Aren't they the sort of thing a busy doctor will just toss? Not these. George Jochum, 62, Mamsi's plain-talking chief executive, who took this medical job after a career in data processing, says one simple incentive ensures that the doctors spend a few hours each month studying the numbers: "They get to keep their job."

The \$730 million (estimated 1994 revenues) Mamsi is in a tight spot. Like any intermediary in the health insurance business, it is under pressure from the employers paying for health care to crack down on costs. But intermediaries can't be too heavy-handed about their financial controls: They don't want patients dying or suffering from inadequate care.

One approach would be to pay the doctors in an HMO collectively a lump sum per patient so that every outlay for surgery or tests comes right out of their wallets. But that gives doctors a too powerful incentive to be stinting in treatments. Another way to control costs is to do a lot of second-guessing of doctors' decisions.

Mamsi's style is more subtle. It consists of calculating some averages and subtotals and mailing the statis-

tics to the 3,000 family practitioners, internists, pediatricians and gynecologists who first see a patient. The printouts detail to these "primary care" doctors what their 508,000 patients cost the HMO. Key number: how each doctor's average monthly patient cost compares with other Mamsi doctors'. "Doctors don't want to be considered any different from their peer group," says Suzanne Groh, director of physician relations.

Calculating meaningful averages is tricky. If a pediatrician seeing 250 Mamsi patients cares for a single premature birth, for that reporting quarter her monthly per-patient cost average will jump from \$260 to \$425. The software includes formulas to prevent a high-cost patient from skewing the numbers. It also is smart enough to know differences in doctors' clienteles—the fact that a family practitioner who sees mostly young patients can't be directly compared with an internist with a concentration of elderly cardiovascular patients.

To overcome the obvious incentive to keep the flat monthly fee and refer all the patients to specialists, Mamsi adjusts the payout to primary doctors with rewards and penalties. It pays an extra fee, for example, if a doctor sews up a wound on a Saturday night instead of sending the patient to the emergency room; it imposes penalties on the worst buck passers.

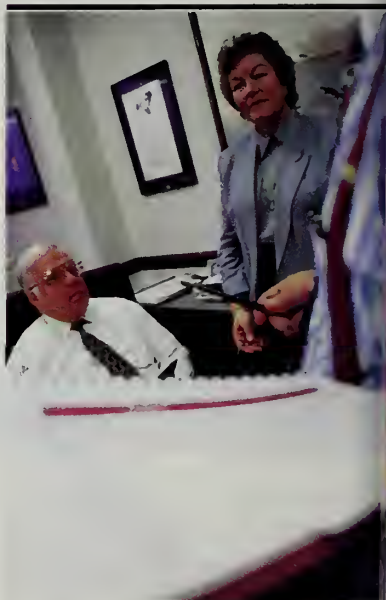
Mamsi's 14,400 specialists get paid by the job. Payments for common procedures like an appendectomy (\$600) or prenatal care and delivery (\$2,050) are fixed in advance and hard to inflate. But it's easy for specialists to run up charges for other

procedures, and it's up to the primary-care doctors to monitor them.

They do that by digging deep into their computer printouts. The reports list every procedure performed by every specialist and its effect on the primary doctor's cost tally. If Smith the internist is getting penalized because the diabetes patients he sends to Jones the endocrinologist are running 40% over average, a glance at the report may show that Jones likes to check blood sugar twice a week. Smith agrees with the treatment, fine. But why let Jones charge for the office visits when you can draw blood at your own office?

"At the beginning we didn't know what the hell we were doing," says Dr. Michael Davidov, member of a six-physician primary-care practice in Falls Church, Va. whose costs per patient have come down in one year from 140% of the internist average to 110%. "Now we can just explain to the specialist that's the way we'd like to practice."

Just having the facts at their fingertips is enough to get most doctors on line. Since 1991 Mamsi has terminated two doctors for cost reasons. The rest get the message pretty quickly. Four years ago, 34% of Mamsi babies were born by cesarean section; the figure is now 22%. The goal is 19%.



Mamsi's George Jochum and Suzanne Groh. **The incentive for doctors:** "They get to keep their job."

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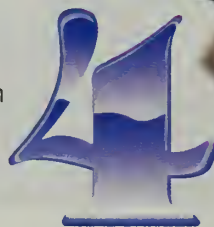
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COMMENTARY BY ANDREW J. KESSLER



Andrew J. Kessler is a managing director at Unterberg Harris, an investment banking firm in San Francisco; his MCI mail address is akessler.

THAT LITTLE MISTAKE in Pentium's calculator cost Intel a \$475 million pretax charge in its fourth quarter. Freak occurrence? Earthquake? No, everyday business. I'll go out on a limb and say that every piece of hardware and software ever shipped had a bug in it. You better get used to it.

NASA legend has Neil Armstrong rebooting a navigational computer during the lunar landing and reloading all 256 bytes by hand. The character played by Harrison Ford in *Star Wars* had a similar problem; he got his starship back on line with a quick slap of his hand.

In *Showstopper!*, author Gregg Zachary has made a whole saga out of the debugging of Microsoft's Windows NT operating system. The "beta," or early sample copy of NT sent out to friendly test customers, had 30,000 known bugs in it. Microsoft insists that most have been fixed by now. Note that: most, not all.

The point is not how to create products without bugs, because that cannot be done. The point is learning to live with them, as vendor, user or investor.

As in entomology, bugs in products range from the merely annoying to the lethal. General Motors recalls thousands of cars every year with defects. Is this bad for either GM or the consumers? It depends on how the bugs are handled. A manufacturer has to strike an intelligent balance between the cost of perfection and the cost of correction. In the 1970s U.S. carmakers weren't striking the

right balance, and consumers were deserting in droves to Japanese makes. Now Detroit seems to have the hang of it. Auto recalls aren't front-page news anymore.

Instead, we get headlines about a division error that Intel claims is so rare you wouldn't see it for 10 zillion years. Intel may or may not have reacted badly by hesitating before offering no-questions-asked trade-ins—that question will be debated for years to come in Harvard Business School case studies. But it's clear that Wall Street reacted inappropriately, knocking Intel stock off by eight points in seven trading days after the news first surfaced about the Pentium bug. In fact, bugs are as much an opportunity as a source of loss.

Software companies from Microsoft to Lotus to Intuit (soon to be part of Microsoft) have the marketing insight—and gall—to turn real bugs into a profit center. They do that by selling yearly upgrades to their applications that offer little in the way of improved functions but a lot by way of making the old functions work better.

Version 3.0 of Intuit's Quicken for Windows had a bug that caused it to capitalize the second letter of a name incorrectly. Checks to my accountant Art were always printed ARt. Annoying, but not lethal. Intuit exterminated the bug in Version 4.0, turning it into a product upgrade sale.

Of course, you can't charge the public \$29.95 for what is in effect a product recall, so you don't label your upgrade a debugging routine. You just say it's a better way of doing things. As the engineers reflexively say when someone criticizes their programs: "Hey, that's not a bug, that's a feature."

While Intel suffered some tarnishing of the Pentium brand name during the early days of the crisis, it has since recovered lost ground. My guess is that most users of Pentiums didn't even know what floating point means and, after all of the press coverage still don't. What they are more likely to remember is that Intel

stands behind its products. What other chip firm has \$475 million to spend fixing an obscure defect? Investors, belatedly, have figured out what is going on. Intel has since rebounded from 58 to 70.

In the end, what makes a computer company sink or float is not engineering bugs but marketing bugs. Version 3.0 of Microsoft Windows had a queer bug that caused the program to crash and provide the cryptic message "unrecoverable application error

Most users of Pentiums didn't even know what floating point means—and still don't.

Microsoft fixed the bug in version 3.1, generating a billion dollars upgrade fees. Basically, Windows still crashes a lot, but the message has gotten better. Microsoft really knows how to sell.

Contrast Adobe Systems, a first-rate software company from an engineering standpoint—these folks pretty much invented type font software as we know it—but a second-rate marketer. Its most recent gaffe was to push a page-and-document format for users called Acrobat. Acrobat was supposed to be at once universal and proprietary. That is, it was going to be the lingua franca for transmitting document detail beyond the raw text—for example, the type sizes and picture layout. Yet Adobe was going to own the language and exact a toll from everyone who published or even read a document written to Acrobat specifications. A backlash by potential users has forced Adobe to scale back its ambitions.

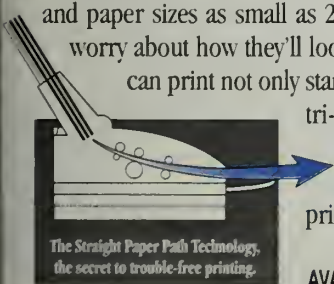
The message in all this: If your favorite computer or software store gets hammered because of an announced bug, consider buying more. But if you sense that a good engineering company is plagued by marketing bugs, don't invest in it.

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Synthetic interferon, although widely used, isn't the miracle cure people hoped. Is natural interferon?

True believer

By Matt Walsh

IN 1988 Gerald Smith's wife was diagnosed with bone, lung and uterine cancer and given 90 days to live. The diagnosis was accurate, the prognosis much less so. Although she declined chemotherapy and radiation treatments, Lois Smith lived five active years, during which she realized her lifelong dream of earning a Ph.D.

Gerald Smith, now 64, credits natural alpha interferon for those five extra years. Lois Smith received injections of this experimental drug extracted from human white blood cells. He was so convinced that several months before his wife died he and ten partners put up \$1 million for a 34% interest in Viragen Inc., the struggling biotech company from which his wife obtained the drug.

Based in Hialeah, Fla., Viragen had ceased operations and was about to go under before Smith and his partners gave it a transfusion.

Is this faith justified? Does this natural interferon really keep cancer at bay? Maybe, maybe not—and Viragen may not live long enough to find the answer. The company is in the red and its cash is down to \$3.5 million, a fraction of what it takes to get a new drug federally approved.

As for medical evidence in favor of natural interferon, the experience of Gerald Smith's wife counts for little; it is not at all uncommon for a lethal cancer to go into remission for no discernible reason. Viragen's drug has run the gauntlet of only one double-blind trial (one in which neither patients nor the doctors evaluating them know whether they are getting the test drug). In that trial, at the University of Miami, 18 multiple sclerosis patients getting Viragen's interferon fared significantly better than 2 patients getting a placebo. No controlled test of Viragen's drug on cancer patients has been undertaken.



Viragen Chairman Gerald Smith
An interferon success would be a memorial to his late wife.

All that said, Gerald Smith's faith may not be entirely misplaced. Dr. William Sheremata, who ran the test in Miami, is a believer. "If the reduction in exacerbations we looked at is an indication, we can look forward to remarkable efficacy with safety and tolerance that hasn't been seen so far" in drugs for multiple sclerosis.

Interferon has been around for a while. Discovered in 1957 and the subject of a binge of frenzied research (and Wall Street underwritings) in the early 1980s, interferon is a collection of protein molecules that act as burglar alarms and as moderators for the immune system. In the laboratory, interferon helps prevent the replication of viruses, including the elusive AIDS virus, and helps protect healthy cells from becoming infected. It appears to quell the spread of cancer cells. It moderates the breakdown of the immune system that is probably behind multiple sclerosis.

Big pharmaceutical and biotech companies like Biogen, Schering-Plough, Schering AG and Hoffmann-

La Roche produce interferon using recombinant DNA, generating \$2 billion in sales in the treatment of hepatitis, multiple sclerosis, leukemia and other ailments. But this synthetic interferon is something of a disappointment. It doesn't cure any of the diseases it treats; it merely palliates, sometimes with severe side effects.

Viragen, in contrast, manufactures natural interferon by distilling the secretions of a line of human white blood cells that have been painstakingly incubated and then challenged by a live virus. It's a costly purification process. There is no such thing as absolutely pure interferon, but if it existed, a gram of it would be enough to treat maybe 5,000 multiple sclerosis patients for a year. It would cost at least \$50 million.

What's the point of going to all that expense to make it naturally when artificial stuff is of such limited efficacy? Because the real stuff, though very unproven, just might work better, says Dr. Thomas Merigan, an interferon expert at the Stanford University School of Medicine. Real interferon is a mix of at least 23 different subtypes, each with sequences of 100 to 190 amino acids. These different subtypes do different things. Some may enhance the activity of the immune system's killer cells; others moderate it. Recombinant interferon, in contrast, consists of a single one of these interferon subspecies.

Notwithstanding that Viragen already burned through \$12 million of investors' money, it has still not produced enough of its precious drug to apply for a Food & Drug Administration license to test it. (Lois Smith and the multiple sclerosis patient in Miami, were able to get Viragen's drug by dint of an intrastate license awarded by the state of Florida.)

Having taken over from Viragen's founders in 1992, Smith has lowered the production cost and increased the purity of the company's product, wrangled some loans of machinery from equipment manufacturers, is arranging for government help in setting up a manufacturing plant in Livingston, Scotland. He hopes to apply for FDA approval of clinical trials later this year. But it's fair to say he has an uphill battle, both scientifically and economically.

"I know it's late, but I'd like some sushi. How far do I have to go?"

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Been thinking about buying a vacation or retirement home in Mexico? Buy now or kick yourself later.

"It's a bargain market"

By Vicki Contavespi

WHILE IT'S PAINFUL for locals and a nightmare for the government, the devaluation of the Mexican peso has made Mexico even more attractive to Americans looking to buy a getaway in the sun.

But before you run off to grab that beachfront condo you've been think-

ing about, there are some basics to keep in mind.

As an investment, a vacation home in Mexico is no better, and in some cases worse, than a vacation home in Vail or East Hampton. You might see some appreciation in value, but that would be luck and shouldn't be your

reason for buying. Buy a place only if you have the time to enjoy it. These days vacation homes are eating sardines, not trading sardines.

There are two categories of real estate available in Mexico. One is a resort condo or villa, priced in dollars, which usually comes complete with a marina, golf course, restaurants, boutiques, cable TV and a host of services.

In recent years, thousands of such units have been built in new resorts on both coasts, largely for the foreign market. The biggest developments have been in places like Cabo Lucas, Puerto Vallarta, Cancún, Zúmel and Mazatlán.

Mexican law was changed to make it possible for foreigners to buy, rent, lease and transfer property in these coastal areas, which had previously been off-limits to gringos.

These resort-area units range from tacky hotel rooms to breathtak-

Photographs by Dante Busquets-Sordo/Gamma Liaison



sions but have this in common: they are very easy for Yanks to buy, finance and sell. And that is not true of real estate in Mexico.

Big development companies, such as Grupo Situr and Koll International, which have been building these resort homes, even arrange the bank trusts that are necessary for non-Mexicans to own land on the seacoast. (Foreigners pay about \$350 each year to maintain these renewable trusts.)

What's the cost of these resort properties? The range is broad, depending upon amenities, but figure \$100 to \$120 a square foot. Compare that to Vail, for example, which starts around \$135 per square foot. A 100-square-foot villa in Cancún, for example, with a golf course on one side, an ocean view and a private boat dock, lists for around \$500,000.

A lot of these coastal resort properties can now be browsed, bought or

sold through Century 21. With some 100 offices in 45 cities, it is the largest American real estate brokerage in Mexico. (In the U.S., call 714-553-2100; in Mexico, call 011-52-5-202-6777.) Another good source for leads is Situr (602-553-0533).

Real estate in most of these newer resort areas is priced in dollars, not pesos. So it is somewhat insulated against the peso's fluctuations. Even so, the recent devaluation is beginning to drive down dollar prices.

For example, before the devaluation a 10,000-square-foot, five-bedroom, 5½-bath villa on the beach in Puerto Vallarta was listed for \$1.3 million. The owner would probably have let it go for \$1 million before the devaluation but is now ready to unload at around \$800,000.

Why the drop? Mexicans who own dollar-denominated resort properties are motivated sellers; the purchasing power of the peso has dropped at least 30%, and local interest rates are now way over 40% and fluctuating.

If you are looking for property outside resort areas, where homes are priced in pesos, not dollars, there are even better bargains to be found.

Consider Puebla, for example, an old colonial town about two hours outside Mexico City that has an American population of some 1,000. A 3,500-square-foot, three-bedroom home with a large garden and a great view would now run you about \$300,000—that's \$50,000 to



Americans golfing in Puerto Vallarta
Cheap margaritas, expensive Scotch.

In resort areas like Puerto Vallarta (left and below), prices of luxury homes are dropping

Buy for the enjoyment, not the investment.



\$100,000 less than a few months ago.

Risks? Sure. Who is to say how many pesos that house will go for when you sell? And how many dollars will those pesos then fetch? That's why we say buy for use, not just for speculation.

Another problem with buying a home priced in pesos: It is currently impossible for foreigners to obtain local financing.

So far there has been no flood of American buyers snapping up peso-priced real estate. But real estate agents report that they are getting more and more calls. "It's a bargain market, but it becomes uncomfortable for foreign buyers because of the uncertainty," says Bo Wallsten, director of Century 21 Mexico.

Some additional things worth noting if you buy south of the border:

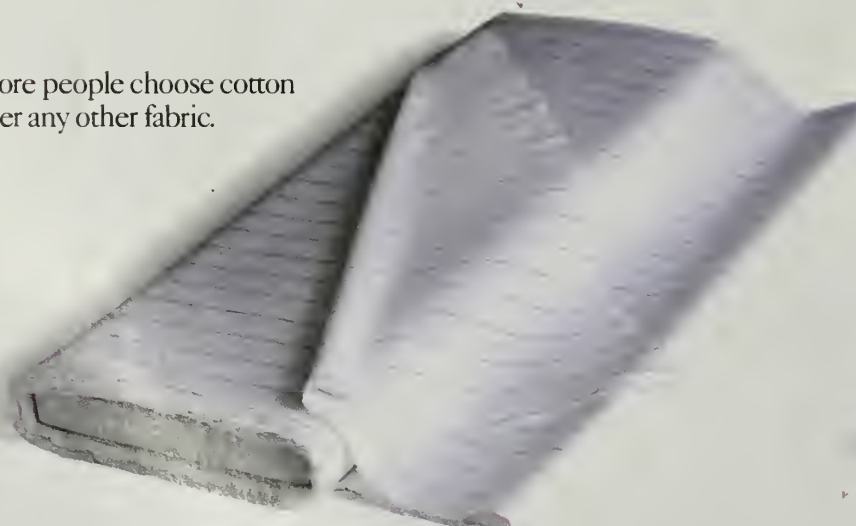
- You can't have a U.S. dollar checking account. (Most Americans living in Mexico keep most of their assets in the U.S. and maintain small peso savings accounts in Mexico. Current interest rates: from 19% to 35%, depending on the kind of account.) That sounds great, but who knows what the inflation rate is going to be?
- Imported goods have already risen by around 20%. A margarita might be cheap, but you'll pay a lot more for your Johnnie Walker.

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over any other pet.



More people choose blue
over any other color.

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is a lot to be said for one's personal style as well. And the Accord
e says it quite nicely. In fact, every Accord out there is making
ment. One which more and more people appear to agree with.

The Accord Coupe
 **HONDA** A Car Ahead

If it doesn't turn your stomach, the new wave of contemporary British art is still reasonably priced.

Pickled sheep and bullet holes

By Richard C. Morais

DEAD SHEEP, sharks and cows immersed in formaldehyde? A bullet wound on a human head?

Such "art" drives animal rights activists nuts and is a guaranteed turn-off for a lot of other people, but it has succeeded in drawing attention to a brash clique of young British sculptors and painters.

Attention is exactly what Damien Hirst, 29, ringleader of this new group of British contemporary artists, wants. He is not one to wait for the world to beat a path to his door but has developed his own method of selling his art, in the tradition of Andy Warhol.

Of course, a closer look at these new artists' works reveals much more than a pickled sheep (called "Away

from the Flock"). These are the attention-getters. There are plenty of other sculptures and paintings that are easier to live with.

Hirst first elbowed his way onto the London art scene in 1988, as a second-year art student at Goldsmiths College. He and some fellow student artists put together their own show in the decrepit Surrey Docks, deliberately bypassing the established contemporary galleries.

The maverick show was a sensation. Called "Freeze," it launched artists like Gary Hume, Mat Collishaw, Sarah Lucas and Fiona Rae—then all still in their 20s.

An early buyer was Charles Saatchi, the advertising mogul who owns one of the most important contemporary

art collections in the world. He bought directly from Hirst and friends, and surprised the European public when he exhibited his new trophies in his museum in north London.

One especially provocative piece, by Hirst, was a 14-foot shark preserved in a tank of bluish formaldehyde, entitled "The Physical Impossibility of Death in the Mind of Someone Living." Hirst followed up with more pieces featuring dead animals—including a cow and calf, sawn in half. Its title: "Mother and Child Divided."

Now Hirst and friends are coming to the U.S. The Museum of Modern Art in New York showcased some of their works during 1994; the Walker Art Center in Minneapolis will stage a major exhibit in October, dubbed "Brilliant: New Art from London."

If you want to see Hirst's pickled sheep, it's currently on exhibit at Chicago Museum of Contemporary Art, until mid-March. The piece was recently vandalized by enraged animal rights activists, but it has since been restored.

One patron of this new group is Arthur Goldberg, a partner at Neuberger & Berman, New York-based asset managers. He has been a collector of contemporary British art for three decades. "When British art breaks out, they radically overthrow convention and rigidity," says Goldberg, 63.

Goldberg follows in the tradition of Roy Neuberger, cofounder of N



Damien Hirst's "Away from the Flock"
Sheep in formaldehyde always grabs attention.

Vincent Odoberlin



Mark Harrison/Kate SABA



Collector Arthur Goldberg and Hirst's "We've Got Style" (left); talent spotter Graham Paton of London (right); "Chesterfield" (below), a Jeremy Dickinson bus.

ger & Berman and a pioneer collector of contemporary art. In 1990 the firm asked Goldberg to build a corporate collection, which now includes some 20 British contemporary artists, including Anish Kapoor, Gary Me and Richard Long. Six months later it added Damien Hirst's "We've Got Style," which consists of painted replicas of common vases and crockery. Cost: \$23,000, more than twice as much as Goldberg usually spends on any single piece.

Collectors can now find British contemporary works for sale on both sides of the Atlantic. Prices are still comparatively modest: Most pieces are priced under \$25,000. In New York's Soho area, there are Gavin Brown's "enterprise" gallery on Dering Street and the Tanya Bonakdar Gallery on Prince Street. Both opened in 1994.

Bonakdar represents Hirst and Mat Collishaw, among others. Currently on display is Collishaw's "Bullet

Courtesy Tanya Bonakdar Gallery



Hole"—a closeup of a bloody head wound—first shown at the "Freeze" show in 1988. Cost: \$18,000.

But Bonakdar also has softer pieces by artists like Jeremy Dickinson, who obsessively paints London buses as if they were rare botanical species. "He has been embraced by America, more so even than in Britain," says Bonakdar. Dickinson's paintings sell for about \$900.

In London look beyond the formal

gallery locations huddled around Cork Street and Marylebone Road. Serious buyers now hunt far afield, at Interim Art, a gallery in the East End run by Maureen Paley. Or they trek to Angela Flowers' gallery, Flowers East, on Richmond Road, in distant Hackney.

Just above Flowers' Richmond Road space is Paton Gallery, run by Graham Paton, who likes to ferret out fresh talent. The Metropolitan Museum of Art in New York has bought the works of 13 artists from Paton. Prices seldom exceed \$7,000.

Even some of London's big contemporary dealers, like Lisson Gallery, on Lisson Street, and Anthony d'Offay, on Dering Street, now showcase some of the newer contemporary artists.

Caution: A number of British regional artists are locally hot—and overpriced. Take John Bellamy, a Scottish painter of vibrant, beach party scenes. His large paintings fetch up to \$70,000.

Tanya Bonakdar insists that British artists who cross the Atlantic and gain international exposure are far better buys. "Look for historically significant work," she says. "Cutting-edge work that has a relevant role in our society today." Cutting-edge the stuff is, though not to everybody's taste.

Hugh Hildesley has been both a priest and a businessman. Religion and business, he says—and demonstrates—are not mutually exclusive.

Serving God and mammon

By Dana Wechsler Linden



LEFT:
The Reverend
Hugh Hildesley
in his new office
at Sotheby's
RIGHT:
Hildesley at
the Church of
the Heavenly Rest
**"Both [jobs]
have to do with
client develop-
ment. The product
is different,
though not quite
as different as
people think."**

GARBED IN AN elegantly tailored suit instead of a clerical collar, the Reverend C. Hugh Hildesley sits in his new office at Sotheby's, the international art auctioneer. Surrounded by financial statements, customer files and hundreds of thousands of dollars' worth of 18th-century British paintings, the former rector of the Episcopal Church of the Heavenly Rest is Sotheby's newly named executive vice president for North and South America.

He is making a transition that some would call a move from God to mammon, but Hildesley, 53, doesn't quite see it that way. Comparing his former job of attracting souls to Christ with

his present job of attracting them to Sotheby's, he says with the good humor that marks his style: "Both have to do with client development. The product is different, though not quite as different as people think."

But all this wealth and affluence that surround Sotheby's, in the midst of the squalor and crime that infest so much of New York City? The New Testament teaches that it's easier for a camel to pass through the eye of a needle than for a rich man to enter heaven. Hildesley concentrates, and his 6-foot-5 frame tenses up a little. "In that statement, Christ didn't say it was impossible," he responds. "He

said it was difficult. Just because I'm a Christian doesn't mean I can't be good at my job in secular terms. I've lived with that conflict before and will live with it again.

"God operates within the world. There's a very great need to be a witness to one's Christian beliefs both in the institutional church and on the outside it. The fact that I'm dressed differently doesn't mean I don't take my Christianity just as seriously."

Hildesley's roots in art and religion both go back to Suffolk, England, where he was raised in his grandparents' house while his father served in the British army in World War II. His grandfather's brother was a bishop, and his grandmother was a pre-Raphaelite-style artist of much acclaim.

Hildesley attended a monastic school, Sherborne School, where many of his friends went to Eton.



estates ever, the Doris Havemeyer collection of impressionist pictures, because Hildesley became friends with her son Harry while serving on a diocesan funding commission. The Havemeyer collection sold for \$16.8 million on May 18, 1983.

"It was my farewell present to Sotheby's," says Hildesley. That year Heavenly Rest's rector resigned; Hildesley was elected to replace him.

Now it was the church's turn to benefit from Hildesley's marketing ability and smooth salesmanship. He more than doubled Heavenly Rest's endowment, to \$8 million from under \$3 million. He recently persuaded philanthropist Brooke Astor (not a parishioner) to write a \$25,000 check to help pay for restoration of the church after a fire.

Nor were his innovations purely financial. Parishioners say he enhanced the church's spiritual quality by introducing more Bible study and a more traditional liturgy.

Then he got "itchy," as he puts it, and agreed to return to Sotheby's, but he hasn't really stopped ministering to the spiritually needy. "The rich face tremendous challenges," he says. "They need ministering like everybody else. And maybe because of my appreciation of what they have and how they deal with it, I am better able to minister to them than somebody who doesn't appreciate it or resents it."

What advice does Hildesley have for the rest of us as we struggle to be successful without selling our souls to the devil? "Make sure when you head into the office that you've already checked in spiritually. If you've done that first thing, it's very difficult to drop it. It's about having yourself centered on something other than the bottom line.

"But remember," he says, "nowhere in the Bible does it say, 'Do not be successful.' "

...n, after a year of studying law at ...rd—"terribly dry," he says—he ...ped out in 1961 and took a job at ...eby's in London as a porter, haul- ...pictures and sweeping floors for ...a week.

...ch night he studied up on the ...tings he would be delivering the ...day for cataloging. He would ...unsolicited tidbits of informa- ...Impressed, his bosses promoted ...to a job in the old master paint- ...department. In 1965 they sent ...to Manhattan.

...aving shown that he could sweep ...s, this offspring of the British ...er-middle class now demonstrat- ...flair for marketing.

...was his idea to set up an appraisal ...pany within Sotheby's, thereby ...only creating a new source of ...me but also bringing more peo- ...n touch with Sotheby's. "Every ...ance appraisal is a potential es-

tate, eventually," he explains. Later Sotheby's joined with Citibank to offer art market advice and insurance appraisals to private banking clients.

In 1973, without telling anyone at Sotheby's, Hildesley started taking night courses at New York's Cathedral Institute of Theology. "There wasn't any conversion experience on the road to Damascus," he says. "I just had the sense that I'd been ducking the theological aspects of my life."

Three years later Hildesley took the Episcopal Church's ordination exam and was told his was the best exam in the country that year. For the next seven years he worked part time as an unpaid priest at Heavenly Rest while holding down his management job at Sotheby's. "I made it clear that I would have to pop out on occasion, but there wasn't too much changing my collar in telephone booths," he says.

Sotheby's landed one of its biggest

The Thoroughbred Connection





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Dragster

BEHIND last month's \$15 million purchase of MGM Grand Air from billionaire Kirk Kerkorian is an unlikely airline mogul—Conrad Kalitta, world-class drag racer, winner of the 1994 U.S. Nationals.

Kalitta, 56, got the racing bug growing up in Michigan and started racing while still in high school. Why drag racing? "We all did it in school, didn't we?" he quips.

Drawn to aviation by his love of speed, Kalitta bought a twin-engine

Cessna 310 with \$15,000 from his 1967 drag-race winnings. Thus was spawned his \$300 million (1994 revenues) American International Airways, an Ypsilanti, Mich.-based charter company for cargo and passengers.

Kalitta's 100-plane fleet—now including Kerkorian's 3 DC-8s—hauls everything from jet engines and NASA satellites to beluga whales and pop singers Billy Joel's and Elton John's concert sets. And he leases two 747s to Saudi



Conrad Kalitta of AIA

Drag racer/airline mogul.

Air that take pilgrims to and from Mecca.

While Kalitta and son

Scott won \$1.5 million last year drag racing, FORBES estimates that Kalitta's airline interests put his net worth at over \$250 million.

—FRANK WOLF

Hot seat



John Blackmer

IBM's
Phillip Hester
**Tall order,
big stakes.**

ONE OF THE KEY point men in Louis Gerstner's drive to turn around IBM tinkered with radios at age 6 and repaired TV sets for pocket money at 11. Now, at 39, Phillip Hester has his biggest fix-it job yet—IBM's hardware.

The problem: IBM's computers, from workstations to supercomputers, don't work that well together. Users have spent as much as \$10 million and four years changing software so a program runs on another model.

So Hester's on the hot seat. His new Austin-based Systems Technology & Architecture Division must design more compatible

computers using faster microprocessors. This while trying to get IBM's notoriously territorial divisions to work together, a tall order in itself. The new designs should be complete by June and hit the market one to two years later. But can IBM catch Hewlett-Packard, which took the technological lead in compatible machines in 1991?

It's too early to say. But Hester, a career IBMer with a master's degree in electrical engineering, won't fail for lack of motivation. "IBM stock is significant to my retirement," he says. "I care a lot what happens to it."

—TONI MACK

Risk-taker

THE BIGGER and messier a project, the more William Allen likes it. His \$400 million (1994 sales) Veco Corp. managed 17,000 workers as Exxon's prime contractor on the \$2.1 billion Valdez cleanup in 1989. Veco then picked up \$10 million from British Petroleum to clean up the 1990 Huntington Beach, Calif. spill.

Now may come Allen's messiest task yet. He is bidding on the cleanup of a massive pipeline leak in northern Russia, three times the size of the Valdez spill. Much of the oil lies hardened beneath a thick crust of Arctic snow. A few black spots on the snow confirm that the line is still pumping. "Here [in the U.S.] you'd spend

three days in the electric chair for that," he says dryly.

But it's all the more challenge to this former roustabout who dropped out of high school at 15 to work as a welder's assistant in the oilfields. Allen moved to Alaska in 1968 and started a little firm to work on Arco's oil platforms. Veco's engineering, procurement or construction work now takes Allen, 57, to Pakistan, Kazakhstan or Vietnam—wherever there's oil.

Says he: "You try to make sure you don't jump into something that if it turns sour it's going to tear your life apart. But we are willing to take the risk."

—F.V.

William Allen of Veco
To Russia, with mop.



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***Based on Actual 20-year Surrender Cost Index which provides historical dividend comparisons between The Guardian and 64 other companies that submitted actual dividend histories to A.M. Best.

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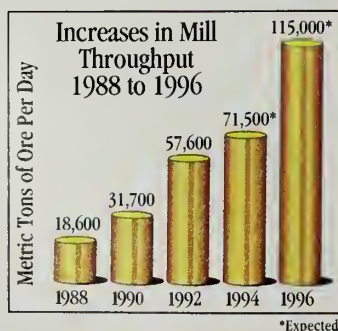
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Wall Street has been busily discounting another Federal Reserve rate hike. Rao Chalasani, chief investment strategist at Kemper Securities in Chicago, has been taking advantage of the down days to buy the stocks he likes. Since December, Chalasani's asset allocation model's cash weight has gone from 30% to zero.

Chalasani is focusing on strong companies in basic, cyclical industries. He says profits for such firms will not peak until 1996 or later, even if the economy starts to lose steam. "The total capacity for basic industry is being outstripped by demand in many areas," he says.

Asked for examples, Chalasani cites Owens-Corning Fiberglas, which receives 30% of sales from overseas operations and sells for 7.6 times Kemper's 1995 estimated earnings of \$4.15 a share. Another pick is A. Schulman, a maker of plastics, which gets 57% of its sales from its European operations.

Special focus

Many short-sellers—those who sell borrowed shares with the expectation of buying them back at a lower price—made good money in the stock market last year, but they may be wrong about some of their current targets. Below: eight stocks with heavy short interest. In each case, analysts expect higher earnings in 1995.

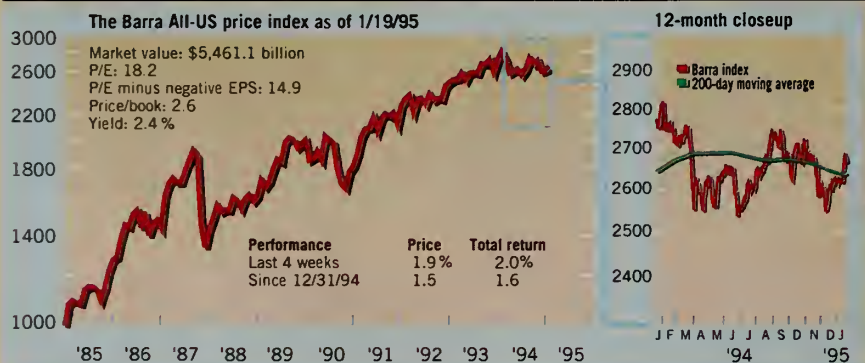
Shortsighted

Company	Short interest*	1995 est P/E
Grand Casinos	29%	9.7
DAKA International	25	14.0
Xircor	22	13.5
Acclaim Entertainment	18	12.3
Owens-Corning	18	7.8
AGCO	15	7.4
Waban	15	8.7
IHOP	14	12.3

*As a percent of shares outstanding.
Sources: Market Guide & IBES, Inc.

Data for period ending 1/19/95. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ²Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴Index of 21 commodity futures. ⁵Source: Knight-Ridder Publishing. ⁶Estimate. Source: IBES, Inc. ⁷Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have equal contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year ago	5-year high
Barra All-US index	1.7 %	-4.0 %	-5.5 %
S&P/Barra Growth index ¹	1.7	3.1	-0.7
S&P/Barra Value index ²	1.4	-1.1	-3.2
Dow Jones industrials	0.8	-0.3	-2.4
S&P 500	1.4	-1.7	-3.1
NYSE	1.2	-3.4	-5.0
Nasdaq	3.1	-3.1	-4.4
Amex	1.3	-9.3	-9.9
EAFE ³	-1.7	-0.2	-7.1
CRB futures index ^{4,5}	0.6	5.0	-6.4
Gold ⁵ (Comex spot)	2.1	-1.1	-9.3
Yen ⁵ (per \$US)	-1.8	-11.0	-38.2
Oil ⁵ (W Texas Intermediate)	5.6	23.8	-54.6

The best and worst performing stocks

Best	Price	2-week change	1995 EPS ⁴	Worst	Price	2-week change	1995 EPS ⁴
XcelleNet	21 1/2	40%	\$0.56	Cyrk	20	-46%	\$3.28
Alliance Semiconductor	27 1/4	38	1.20	Desc ADS	11 3/8	-46	1.86
Apollo Group	18	37	0.87	Consorcio G Grupo Dina	3 5/8	-45	NA
CAI Wireless Systems	10 1/4	37	-0.83	Noven Pharmaceuticals	6 3/4	-40	0.53
Starter	9 3/4	37	0.55	Bally Gaming Intl	6 3/8	-39	1.11

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/94	Worst	2-week change	Since 12/31/94
Precious metals	7.2%	0.6%	Tobacco	-5.3%	-3.4%
Tire & rubber	6.9	9.3	Trucking	-4.5	-7.1
Electronics	5.8	5.8	Motor vehicles	-3.3	-3.0
Forest products	5.2	9.8	Photographic, optical	-2.4	0.2
Air transport	4.8	9.1	Leisure, luxury	-2.0	1.8

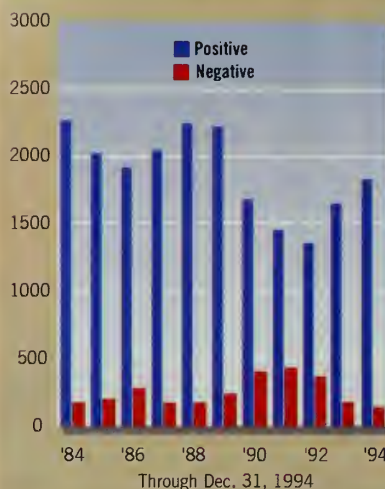
DIVIDEND REVIEW

BY RONALD BOONE JR.

Corporate vs. government yields



Corporate dividend revisions



Representative industry payouts²

Industry	Yield	Payout ratio	P/E	Industry	Yield	Payout ratio	P/E
Auto & truck mfg	2.9%	18%	6.4	Paper & forest prods	2.6%	68%	34.4
Banking	3.9	36	9.2	Petroleum	4.4	88	20.3
Computer software	0.3	9	33.5	Pharmaceuticals	3.0	45	17.7
Food processing	2.5	45	18.7	Retail stores	2.0	32	19.3
Health-care svcs	0.3	6	25.8	Electric utilities	6.8	80	12.1

Standard & Poor's 500 stock index was off 2% in 1994, but corporate fundamentals were strong. Aggregate 1994 profits of the S&P 500 companies are expected to come in 1% above their 1993 level. And Standard & Poor's reports that 1,826 companies raised their dividends last year, 12% more than in 1993. That's the most dividend increases for any year since 1983.

The yield on the S&P 500—now 2.9%—remains near the bottom of historical range. But Arnold Kaman, editor of *Standard & Poor's Outlook* newsletter, predicts a 7% increase in S&P 500 dividends this year. The table (lower left) identifies ten good candidates for dividend increases. Each firm has a five-year annual compound earnings growth rate of at least 20%, and pays out less than 16% of the latest 12-month earnings in dividends. Hasbro, for example, shows a payout ratio of only 14% and yields 0.9% on a dividend of 28 cents. The insurers, Progressive Corp. of Ohio and Consec, retain more than 90% of their earnings.

The second table lists companies whose dividend payout ratios—based on estimated 1995 earnings—are expected to decline sharply.

Larger dividend possible

Company	Price	Yield	Payout ratio ³	5-year EPS growth rate ⁴
CML Group	10 1/4	0.8%	9%	30%
Computer Associates Intl	54 3/8	0.4	11	23
Consec	45 1/8	1.1	7	56
Dean Witter Discover	35	1.4	12	48
Fingerhut	15 1/2	1.0	11	20
Hasbro	29 5/8	0.9	14	22
Progressive Corp of Ohio	37 5/8	0.6	8	24
Richfood Holdings	16 3/4	0.6	11	56
Wal-Mart	21 1/8	0.8	15	22
Wheelabrator Technologies	15 5/8	0.6	10	26

Lower payout ratios expected

Company	Price	Yield	Estimated 1995 payout ratio ³	Estimated 1995 earnings per share
Allegheny Ludlum	20 1/8	2.4%	34%	\$1.42
Corning	32 5/8	2.2	32	2.25
Cyprus Amax Minerals	27	3.0	26	3.02
Engelhard	24 3/4	1.9	33	1.47
Lukens	28 1/2	3.5	50	1.99
National Computer Systems	16 3/8	2.2	25	1.45
Potlatch	37	4.3	47	3.37
Rite Aid	24 5/8	2.8	36	1.88
Roadway Services	50 1/2	2.8	44	3.21
Timken	34 1/4	2.9	34	2.93

Data as of 1/19/95. ¹Yield on 30-year Treasuries adjusted for inflation using the trailing 12 months' increase in the Consumer Price Index. ²Capitalization-weighted. Dividend divided by net income; all extraordinary items are excluded. ³Average during the latest four quarters. ⁴Annualized. Sources: Market Guide Database Service, Value Line Database Service and IBES, Inc., via OneSource Information Services; Standard & Poor's Dividend Record.



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and successful execution of
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When people tell you stocks aren't cheap, ask them: Where do stocks stand on the historical bell curve?

Compared with what?

KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based investment manager. His third book is *Minds that Made the Market*.

STOCKS AIN'T CHEAP and you're not old enough to remember when they were. Thus did one old-timer dismiss my new year's impudence for predicting 1995 should be an above-average year for stocks.

But I am old enough to remember stock markets, other times. Not only old enough to recall when stocks were cheap, but also old enough to know that avoiding stocks just because the market isn't cheap is a dumb idea. My 23 years in the investment business have taught me this: The market rises just as often when it is "cheap" as when it is "overpriced."

This may seem counterintuitive, but it is not. There is a lot of ground between "not cheap" and "overpriced." We are on that ground right now, with lots of room to go before we are "overpriced."

Think of stock prices over time as a bell curve and ask, "Where are valuations now, compared with the past?" Sometimes stocks become much too cheap or highly priced, but usually they dance around the bell curve's center, not way out on either end.

Where are we now? Valuations are above average but not way out on the right side of the bell. By my count we

are in the middle of the right half of the bulge, about "one standard deviation above the mean average."

How do I figure this? By applying a number of familiar yardsticks.

Measured by dividend yield we are out on the high-priced end of the bell curve. So, too, on the basis of price-to-book value, which, linked to decades of above-average inflation, has lost much of its traditional usefulness for judging the overall market. But by price/earnings ratios we are not. The 250 biggest stocks' median P/E is 16.2—only a bit above the historical average. Ditto for price-to-cash-flow at 7.1 and price-to-sales at 1.1.

Averaged equally (giving a 20% weighting for each of the five above mentioned yardsticks), we are well within the bulge of the bell curve and a good way away from the far right.

Stocks not cheap? Consider these giant companies:

Ford Motor (26) is about where it

was in the late 1980s, despite being almost half again as big. Why not own America's best automaker when you can get it for 23% of annual revenue, 6 times earnings and 1.3 times book value, collecting a 3.7% dividend yield while you wait for 40?

When the media fuss about derivatives ends, expect to see *Bankers Trust* (57) at 85. Meanwhile, get a 6.5% dividend yield on a good company that sells at 65% of sales, a P/E of 6 and 1 times book value. *Chase Manhattan* (33) is just where it was ten years ago, but much bigger now at 85% of book value, 6 times earnings and a dividend of 4.6%.

St. Paul Cos. (45) should get a boost since things can't get much worse for property and casualty insurers, and this is one of the best of the big ones. At 80% of sales, a P/E of 9, 1.4 times book value with a 3.3% dividend, you don't risk much.

Travelers (34) has journeyed down 30% from 49, showing lots of interest-rate sensitivity. But it's a great firm and can easily get back up there. While its dividend yield isn't compelling at 1.8%, its P/E of 9, price-to-book of 1.3 and price-to-sales of 60 are very attractive.

Among medium-size stocks of quality and similar cheapness are: *Aon Corp.* (33), *Ashland Oil* (32), *Bank of Boston* (28), *Comerica* (25), *Equitable Cos.* (19), *Fleming Cos.* (21), *Lincoln National* (36), *Ryder System* (22), *Shawmut National* (18) and *Transamerica* (51).

Boatmen's Bancshares (29, o-t-c) is priced like a bank at 1.3 times book value, a P/E of 9 and with a 4.6% dividend yield. But none of that even seems to include its very valuable money management arm, which if sold off would probably fetch as much as 40% of what all of Boatmen's sells for now.

Paccar (45, o-t-c) is Peterbilt and Kenworth, classic names in trucking, a company on a roll while truck stocks are on a slide. At 9 times earnings, 40% of sales and 1.4 times book value the stock should easily see a price of 65 before this bull market ends.

I predicted last month that stocks should rise 20% to 40% in 1995. I still do. Don't be frightened out of this bull market by meaningless babble about "not cheap."



This bell curve is not about human intelligence but about stock valuations. Though above average, these are still far from extreme, as the chart shows.

Value Line remains the top long-term performer among investment services, but its lead has been shrinking. Dan Seiver has figured out a way to restore its luster.

Tweaking the numbers

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors the performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

THE VALUE added by *Value Line*, which is top-ranked among the letters tracked by the *Hulbert Financial Digest* since 1980, has been slipping. Over the long term, *Value Line* has outperformed the average stock by more than 4% per year. Over just the last eight years, in contrast, its lead over a buy-and-hold strategy was 1.3% per year.

Much of this diminution can be traced to the increasing number of investors who have jumped on the *Value Line* bandwagon. It's the rare investor today who isn't aware of *Value Line's* famed stock ranking system, which segregates a 1,700-stock universe into five groupings—from Group 1 (the best bets) to Group 5. This popularity has made it difficult to obtain favorable prices when buying and selling stocks as they are up- or down-graded from Group 1.

This popularity also has put a growing premium on finding new and more profitable ways of exploiting *Value Line's* undeniable value. My monitoring of investment letter performance reveals that such a way has

been found. It is provided in the *PAD System Report*, edited by Daniel Seiver, a professor of economics at Miami University of Ohio. He bases his strategy on statistics that are included in each *Value Line* issue. Since 1989, when the *HFD* began following Seiver, his conservative portfolio has beaten *Value Line* by a slight margin, but with substantially less risk.

Over the last six years, the stock market itself—as measured by the Wilshire 5000 index—has produced a 94.5% gain. A portfolio of *Value Line's* top-rated stocks did 126.8%—but with 10% more risk than the market itself. Seiver's conservative portfolio, in contrast, did 130.5%—but with 10% less risk than the market and 20% less than *Value Line*. That's a winning combination.

Seiver's market timing is based on *Value Line's* analysts' projections of where each of the 1,700 stocks they follow will be in three to five years. In 1986 Seiver discovered what has since been confirmed by academic research: When 55% is subtracted from the median of these projections, it is high-

It's the rare investor today who isn't aware of *Value Line's* famed stock ranking system.

ly correlated with the market's level four years hence.

It works like this: If the median projection is, say, 100%, you scale it down to 45%. That turns out to be a remarkably good forecast of how much the market will rise over the next four years.

How Seiver translates this discovery into a market timing rule: The stock market is a "buy" if the median of *Value Line's* projections—before subtracting 55%—equals or exceeds 100%. The market is a sell when the median projection is below 70%. In between, the market is neutral.

Value Line's median for all stocks currently stands at 70%, which, according to Seiver, places the market on the borderline between neutral and an outright sell.

For selecting individual stocks, Seiver also uses *Value Line's* three-to-five-year projections. He believes *Value Line's* analyst projections may contain as much valuable information as the *Value Line* ranking system itself. For example, Seiver contends, we need not confine our purchases to *Value Line's* Group 1 stocks—so long as the stocks that do purchase are projected to at least double over the next three to five years. According to Seiver, if a stock is projected to at least double, then it's okay to buy it, even if *Value Line* ranks it as low as Group 3 (average).

Other stock selection rules Seiver gleaned from the pages of *Value Line*: Estimated future earnings must be at least 50% higher than earnings of the best year of the last five. And the company must have a financial strength rating at least B++ and a *Value Line* safety rank of at least 1.

In addition to his successful conservative strategy, Seiver also has been exploring more aggressive ways of exploiting *Value Line*. These include methods of purchasing risky technology stocks as well as selecting potential sale candidates. So far, however, results have been mediocre: In contrast to the 126.8% six-year gain for *Value Line* and 130.5% for his conservative strategy, Seiver's aggressive portfolio has gained just 55.6%.

The stocks that currently make up the buy list for Seiver's conservative portfolio: Northern Trust (32), a bank holding company; Albert Heijn (30), the supermarket chain; RSC (24), which provides pest control and lawn care and security services; Germany Fund (11), the closed country fund. In addition, Seiver would buy Millipore (49), a leader in fluid filters, if it dropped about 20% from current levels.

I believe today's market volatility may be tomorrow's opportunity."

Bill Berger

Shareholder
& Director



Results of a hypothetical \$10,000 investment in the Berger 100 Fund through 7 bull and 7 bear markets.



If today's market turbulence keeps you out of equities, I believe you're missing significant opportunities. In the 40 years that I was an investment manager, I learned that if you look long term, it's always a good time to invest in equities.

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FOR 21395

My sins and my wins for 1994
and my picks for 1995.

Reckoning time

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of Birinyi Associates, a Greenwich, Conn.-based financial consulting firm.

ONE OF THE MORE CURIOUS CALLS I received last year was from a gentleman inquiring whether I still recommended a certain stock on which he had already lost 40%. Fortunately for me, the stock was not one I recommended (or even followed). But this incident illustrates the casualness with which individuals often track their investments. They even forget why they bought a stock or who recommended it.

For the benefit of those who did follow any of my recommendations, the editors of *FORBES* did some reckoning and informed me that through the beginning of December, my 1994 picks resulted in a net gain of 2%. I won't go through all the fine-tuning of dividends, discriminating between initial and subsequent recommendations, but two features I would note in my defense: 1) Of my 65 recommendations, 40 were in the black at the end of the marking period; 2) in a year when many stocks fell into deep holes, Kmart and Morgan Stanley were the only stocks I would like to give back.

Reviewing the stocks I recommended in 1994, I find some lessons. Probably the first is to truly be an investor. My recommendations are directed at investors, not at speculators who hope to skin a couple of points and get out. Thus the stocks that most populated my list have been

staples of this space for some time. My top mention, Texas Instruments (six times), was first suggested to you in the Jan. 6, 1992 issue at 28. Since then, it is up 171%; not bad for three years. And I still like it.

There are names that appeared five times last year: Compaq, Intel and Wells Fargo. All would have made money for you in 1994 but, like Texas Instruments, looking at their longer picture makes even better reading.

There is a corollary lesson that helps explain why it is better to invest than to speculate: You can be 200% wrong when you switch. Suppose I had recognized that Texas Instruments wasn't going to have a banner year and so sold it in December, paying a fat capital gains tax. Suppose I switched to bonds. Or emerging markets. There were plenty of people earlier last year pushing both concepts. Either of those switches would have been 200% wrong. You would have foregone a small profit in TI and sustained a big loss in the security you switched to.

In betting circles, this is known as a parlay. Here a horseplayer assumes he will win the first race and tells his

When you hold a stock you can be wrong only once; when you switch you have a chance of being wrong twice.

bookie to take those winnings and play them on such-and-such an entry in the fifth race. Or the football fan who thinks Alabama will cover the spread on Saturday as will the Chicago Bears on Sunday. Bookies know better, and that is why they have tans in February and drive late model cars.

Stocks that did well for me were generally mentioned on more than one occasion, stocks about which I had strong convictions. Eli Lilly, for example, came up only once, in the

Apr. 11 issue, and was down almost 9%. Obviously, I wasn't that convinced or I would have highlighted it again. Always be leary of the columnist or pundit who has new and different ideas with every squiggle in the market and every flash in the headlines. He probably has no real convictions and keeps on swinging anyway in hopes that he connects once in a while.

Unfortunately for me, the *FORBES* editors didn't keep track of my don't buy inputs. There I looked pretty good. In my Jan. 31 comments I said "Be skeptical about foreign markets." and on Feb. 14 expressed concern about the premiums in the country funds of Argentina, Indonesia and Taiwan. In the Aug. 1 issue I told you that even with the Turkey Fund down over 50%, the Indonesia Fund losing 40% and Taiwan's 30%, I still would not buy them.

You would have done well to share my skepticism.

For the new year, I would stay with some of my old favorites, *Intel* (70), *Texas Instruments* (72) and *Wells Fargo* (145). In spite of my Sept. 1 reservations about *Compaq* (42), I would continue to hold and look for opportunities to buy on declines. My *Nike* (73) recommendation (May) is now up 18 points, so I wouldn't buy any more and would not make the stock more than 10% of my holdings. I want to own some energy stocks in 1995, so I will add *Atlantic Richfield* (107). A consumer stock should be represented, which I will do with

PepsiCo (35), even though it is out of favor on Wall Street.

As for those emerging country funds, I now think they are worth a nibble. But stay with those selling at a discount to net asset value: those that were indirectly hurt by the Mexican crisis, but not necessarily the purely Mexican plays. My personal favorites include: the *Latin American Equity Fund* (16), *First Philippine Fund* (16) and *India Fund* (10).

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Mexico's problems are a timely reminder:
There's no place like home.

Dorothy had it right

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Greenwich, Conn.

IN THE REAL WORLD the big dogs eat first, and they eat as much as they want. The little dogs eat what is left in the bowl when the big dogs have finished. That's how it is in nature. That's how it is in global investing.

The U.S., Western Europe and Japan are the big dogs around the world capital market bowl. They take whatever capital they need; other economies fight it out over the scraps.

The big dogs haven't been very hungry recently. So the little dogs have been able to fill their stomachs for a change. For most of the past five years, the rich, industrialized countries have been mired in deflationary recessions of their own making, and haven't had much appetite for new capital. Managers focused on survival—restructuring, reengineering and downsizing—and worked hard to reduce the capital and people they needed to run their businesses.

The Fed, the Bundesbank and other central banks pushed interest rates lower and lower, looking for the level that would restart the Western economies. As a direct result, investors, discouraged by low bond and money market returns and high stock prices in the industrialized countries, shifted

assets into the high-growth emerging market economies, pushing their stock markets sharply higher during 1993 and priming the pump for inflows of retail money into emerging market mutual funds last year.

The big dogs are back. Economic growth rebounded last year, with GDP rising in the U.S. (4%), U.K. (4.2%), Germany (2.8%), France (2.9%) and Italy (3.7%). Growth was strongest in the capital-intensive manufacturing sectors. Japan, although still deflating, is starting to grow again, too.

After years of reducing capacity, this sudden switch to growth has produced extremely tight conditions in the markets for many industrial materials. There simply isn't enough steel, copper or aluminum to meet current production needs. Industrial metals prices have increased by more than 70% in the past year alone. And although U.S. consumer prices increased only 2.7% last year, inflation is beginning to show up in final goods prices, as we saw in January when Goodyear raised its tire prices to pass along higher material costs. Wholesale prices in December jumped 0.7% in both Germany and the U.K.

Alarmed by signs of rising prices, the Fed has increased interest rates six times since last February, to almost double their levels of a year ago, and is likely to continue doing so. Other central banks have followed its example. With every notch-up of rates at home, it gets that much harder for the emerging countries to attract capital.

In Mexico's case, the rates proved too high for its fragile political system to bear, and in December the new government of President Ernesto Zedillo threw away the dream of a thriving Mexican economy when he chose the traditional Latin remedy, a mas-

sive devaluation of the peso, austerity and dollar convertibility.

In the few weeks since the devaluation, the Mexican economy has completely shut down and investors have lost half of their net worth in the stock market. Inflation, below 7% last year, will now be 25% to 30% this year, and interest rates are much higher, both in pesos and in dollars, than before devaluation. Mexican workers' wages are now worth less in dollar terms than they were in 1976.

Some economists have argued that the cheaper peso will make Mexican exports more competitive and attract foreign firms to locate in Mexico to take advantage of the new, even lower, dollar wage levels.

Wrong. Dead wrong.

The devaluation of the Mexican peso was not a macroeconomic event; it was a moral event. Each unit of a country's money, as Argentine Economics Minister Domingo Cavallo said last week, is a contract between government and its people. By breaking that contract, after systematically lying about its intentions not to devalue, the Mexican government has taught a whole new generation of international investors that it is not safe to trust governments of developing countries with their money.

The fallout has already been widespread, with massive stock market selloffs and currency crises in dozens of countries. In each case the common theme is lack of trust in the government.

Are you starting to drool at

With every notch-up of interest rates at home, it gets that much harder for the emerging countries to attract capital.

growing list of cheap stocks out there. Wipe your mouth and keep your checkbook in your pocket. A stock in an illiquid market with currency risk is not a bargain. My advice this all sorts out is: Remember Dorothy said in the *Wizard of Oz*: "There's no place like home."

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Mexico could have avoided the peso crisis if it had had a currency board.

Jobs for the boys

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

THE International Monetary Fund was established in 1944 to provide short-term assistance to countries whose currencies were pegged to gold or the U.S. dollar. This rationale disappeared when the major currencies were floated after the U.S. went off gold in September 1971. But bureaucracies that outlive their purpose never fade away. Indeed, the IMF assumed new powers and kept growing.

The IMF kept growing by insisting that developing countries put central banks in charge of money creation. These central banks don't work well. They produce lousy money. But never mind. That creates more patronage for the boys at the IMF because they have to monitor and bail out the troubled central banks. The IMF also costs the taxpayers dearly.

Most developing countries are plagued by relatively high rates of inflation because their central banks emit excessive amounts of money. Among the 126 developing countries monitored by the IMF, the average annual rate of inflation was 20.2% from 1971 to 1983 and 43.5% from 1984 to 1993.

In addition to expropriating wealth by inflation most central banks in developing countries curb individual freedom by limiting convertibility, that is, restricting people's ability to exchange third-rate currencies into

first-rate currencies. To the extent the central banks succeed, they create a fence inside which their citizens' money and property can be expropriated through inflation.

If this situation weren't bad enough, most central banks in developing countries are encouraged by the IMF to employ pegged exchange rate regimes, i.e., to link the value of their currency to a stronger one. This is supposed to produce sound money and confidence. But it doesn't because the link always breaks. Consequently, as I pointed out in my Jan. 16 column on Mexico, pegged exchange rates invariably generate balance-of-payments crises, devaluations and—you guessed it—more IMF jobs.

There is a better way to provide money in developing countries, but most governments shun it because that way makes it impossible to print money to finance government deficits. The alternative is a currency board system.

A currency board cannot print money at will. Indeed, it can only issue notes and coins to the extent

Unlike central banks, currency boards have never devalued against or suspended convertibility into their anchor currency.

that the new money is fully backed by hard currency reserves.

This 100% hard currency backing provides credibility for a permanently fixed rate of exchange between a board's money and its reserve currency. A board cannot expand the monetary base faster than it obtains foreign reserves. Therefore, a Mexican-style balance-of-payments crisis—which is set off when a country's foreign re-

serve cover sinks close to the vanishing point—cannot occur.

Currency board systems are well tested. They have existed for almost 150 years. There have been some 70 plus currency boards. In *Russia: Currency and Finance* (1993), Professor Lars Jonung, Dr. Kurt Schuler and I show that, unlike central banks, currency boards have never experienced a balance-of-payments crisis, devalued against or suspended convertibility into their anchor currency.

Most currency boards were placed with central banks in the 1950s and 1960s because of intellectual fashions and pressure from the IMF. Some boards survived, most notably Hong Kong's—with commendable results. Since 1991 I have had a hard time in establishing currency boards in Argentina, Estonia and Lithuania. They have successfully crushed inflation, promoted fiscal discipline and stimulated economic growth. In Argentina, for example, annual inflation was 2,315% in 1990. On Apr. 1, 1991, President Menem thumbed his nose at the IMF and installed a currency board. Now Argentina has the lowest rate of inflation in Latin America (3.9%), a balanced budget and a 7% growth.

Mexico and Russia, two IMF bad cases, ought to take note. In addition to providing Mexico and Russia with sound currencies, currency board systems would provide both countries with a transparent institution, so the public could see what was going on with the currency. Everyone could see the exchange process taking place. There would be no need to guess the intentions of politicians and bureaucrats; both would have their larger hands tied.

Already Mexico is under pressure to report its foreign reserve holdings on a more frequent basis. (With a currency board it could report reserves daily, as does Argentina.) Would the Mexican politicians accept a currency board system? Maybe. The Mexican central bank is currently studying the idea.

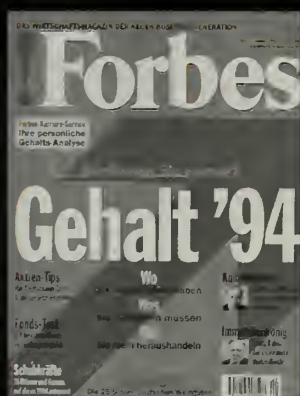
There are only three losers in a currency board system: Central bankers and IMF people who will lose cushy jobs; and politicians who lose some of their ability to expropriate people's savings.

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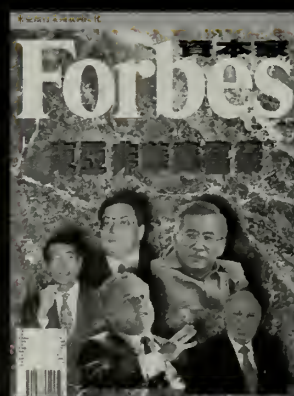
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Where Kobe isn't a problem

ON JAN. 16 the stock of property and casualty insurer American International Group hit an all-time high of 105%. A week later it closed below 100.

What sent this superbly run global company down more than 5%, a loss of about \$2 billion in market value in five trading days? The main reason, says insurance analyst Steven Gavios of Bear, Stearns, was investors were worried another rate hike by the Fed would hurt AIG's profits. And there was concern over AIG's exposure to the Kobe earthquake.

Gavios doesn't think higher rates will hurt AIG. And he notes its Kobe exposure, estimated by AIG at \$50 million, is small. Gavios thinks AIG earned \$6.60 a share in 1994, and will do \$7.60 in 1995. Look, he says, for the stock to hit 125 over the next year.

Rising in the West?

AMERICA WEST AIRLINES, INC. (estimated 1994 sales, \$1.4 billion) emerged from bankruptcy last August with one of its industry's lowest cost structures. Even so, the Phoenix-based carrier's 45 million NYSE-listed shares have since fallen from 16 $\frac{3}{8}$ to a recent 6 $\frac{5}{8}$. At that price, it is being valued at four times the \$1.55 a share that Bankers Trust high-yield bond analyst Brett Levy expects it to earn this year. A screaming buy, says Levy.

Why's the stock so low? Because, Levy replies, stocks of reorganized companies are highly volatile at first, as creditors often dump shares they receive in any recapitalization. In America West's reorganization, creditors got 60% of its new equity.

Raymond Neidl, an airline analyst at

Furman Selz, agrees America West is cheap. He says it has been unjustly punished because of the fare war on the West Coast between Southwest Airlines and United Airlines' new shuttle. Only about 5% of America West's capacity, he notes, overlaps with the United shuttle. And America West is a fierce competitor with Southwest in its Phoenix and Las Vegas hubs.

Thanks to sharp cost-cutting begun during the Chapter 11 stay, America West's costs per available seat mile were only about 7 cents through the third quarter of last year—around the same as no-frills Southwest and less than an estimated 7.5 cents or so per mile for the United shuttle. Out of bankruptcy, it has one of its industry's cleanest balance sheets, with \$5.20 a share of cash in the till. Layoffs and further cutting announced in January should slash another \$40 million a year from operating expenses starting in 1996.

Bankers Trust's Levy expects America West stock to more than double over the next year, to 15. —RIVA ATLAS

Banking gets a break

ON JAN. 31 the Federal Deposit Insurance Corp.'s board will meet to decide when and how much to slash its premiums. Michael Mayo, a regional bank analyst at Lehman Brothers, thinks a major reduction is near certain, benefiting most banks' earnings.

Digging deep into U.S. banking history, Mayo notes that from 1935 to 1949 deposit insurance premiums were about 8 cents per \$100 of deposits. Over the next 30 years they dropped to 3 or 4 cents, then rose during the 1980s to around 8 cents. Then, in the turbulent early 1990s,

premiums took a big jump, to 15 cents per \$100.

But the crisis is over, and the FDIC has replenished its fund. Mayo expects the premium will be cut to 8 cents. He calculates this will add around 5% to a typical bank's sustainable earnings.

The prospect of low premiums makes a stronger case for three regionals Mayo recommends: Citicorp (recent NYSE price, 26 $\frac{1}{8}$), Mellon Bank (34 $\frac{3}{8}$), NationsBank (45 $\frac{1}{2}$). He projects 1995 earnings at \$3.45 a share; for Mellon and NationsBank, \$4.45 and \$6.80, respectively.

Super regional

SPEAKING OF regional banks, I.W. Witter Reynolds analyst Anthony Davis is pushing Minneapolis-based Bank System, Inc., recently traded on the NYSE price at 35%.

Davis follows 25 regionals and \$36 billion (estimated 1995 assets). Bank System is one of the least vulnerable to high interest rates. Among the reasons: strong growth of its credit card business, where margins are high; a reduction of lower-margined mortgage loans; moderate use of purchased funds.

Davis says BSI is an industry leader in applying overhead-cutting technology to banking. Around 60% of its retail loans (home equity loans, personal loans and credit cards, for example) are generated via telemarketing and direct mail. BSI ranks among U.S. banks in automated teller machines; by the end of this year, it almost double its number of ATMs.

BSI just acquired \$8 billion (assets) of Metropolitan Financial Corp., based in Minneapolis. BSI paid about 22 million newly issued shares for the deal. Davis expects the deal to add 10% to BSI's earnings, which are projected at \$4.05, up 15% from 1994. He thinks the stock will hit 45 over the next 12 months, or nearly 25%, over the next 12 months.

Making crime pay

SENSORMATIC ELECTRONICS (NYSE: SENS) the \$656 million (sales) maker of electronic surveillance systems, paid some 3.1 million newly issued shares for the overseas business of its competitor, Knogo Corp. The



Joe Towner/Stock Market

America West jet
Will former
creditors regret
dumping its
shares?

th about \$100 million at Sensor-
c's current stock price, gives the
rfield Beach, Fla.-based firm over
of the growing European market
surveillance devices used by retail-
o prevent shoplifting.
you want a company with a solid
rd in a growing business, Sensor-
c fits the bill. Over the last four
s earnings almost tripled, to \$72
on (\$1.16 a share) in fiscal 1994,
ed last June. Even on the expand-
ase of common stock (there are
nearly 71 million shares), it will
ably earn \$1.42 a share in fiscal
5, and \$1.75 the following year.
established 20%-plus-a-year growth
panies don't come cheap. At its
nt NYSE price of 31½, Sensorma-
ades at 18 times estimated fiscal
o earnings, and at 2½ times this
as projected sales. If the market
ons, so, too, will Sensormatic.
it consider this: In the past Sen-
matic has typically sold for over 20
s anticipated earnings, and is cur-
y 21% below its 52-week high.
cover, it is priced well below a
ng competitor in antitheft elec-
c tags: \$120 million (estimated
sales) Checkpoint Systems. At
a share on the NYSE, it's at a 52-
high and selling for 29 times
cted earnings. In a pullback, S-
point would probably get clob-
l worse than Sensormatic.

—RICHARD PHALON

takeover that wasn't

SUMMER Quaker Oats stock trad-
etween the low 70s and 80s on
ver rumors. But Duff & Phelps
analyst Ellen Baras pooh-poohed
rumors and warned that Quaker
fall into the 60s (*Aug. 29, 1994*).
ood call. Instead of being ac-
d, Quaker acquired Snapple
rage for \$1.7 billion in Decem-
The generous price helped drive
stock to a shade under 60.
at the rumor mill works overtime.
id-January cable TV market tout
Dorfman reported Coca-Cola was
g Quaker. That sent the stock,
a split 2-for-1 in December, to
(72¼ on the old stock). When
denied it, Quaker fell to 33¼.
as, meanwhile, still discounts
keover talk and thinks the stock
lly valued in the low 30s. ■



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more things change . . ."

years ago in FORBES

(FROM THE ISSUE OF FEB. 15, 1925)



Auto pioneers W.C. Durant (left) and J. Dallas Dort, pictured in a New York beanery near the National Auto Show in 1925.

education advances, human become more and more opposed to conferring upon others power to freedom of action. Among American citizens is a rising tide of opposition against the further multiplication of laws and regulations and restrictions imposed by Washington or state bodies."

free from Brazil, rubber goods, tropical fruits and woods, sugarcane, machinery, crockery, paper and other things can now come in from the west through [the] Panama [Canal] by the western ports of the Pacific and as far east as the 100th meridian [through Nebraska] cheaper than they can come straight west half across the continent by rail."

years ago

(FROM THE ISSUE OF FEB. 15, 1935)

Knitting machines and makers of knitwear are riding high on a craze for home knitting—a craze which almost has given them the biggest business they ever had, and one which grows as swiftness as each week passes. Tonight, hundreds of tiny knitting-machine shops are springing up."

The Federal Aviation Commission, after an exhaustive, conscientious investigation and study, recommended, in its final report, that the government set up a special commission to study this rapidly growing industry. President Roosevelt, for some unexplainable reason, has vetoed the recommendation of his counsellors. He favors

adding the overseeing of aviation to the duties already overburdening the Interstate Commerce Commission."

"A big Chicago department store has become a special agency for Nash cars, which recalls the fact that in the early days of the industry many department stores—including John Wanamaker—operated as direct dealers for car manufacturers."

50 years ago

(FROM THE ISSUE OF FEB. 15, 1945)

"A subcommittee . . . has been appointed by the House Naval Committee to study which of the Japanese mandated islands are needed by the U.S. for its own outer defense."

"Thanks largely to the bang-up transportation job being done by America's railroads, eastern and midwestern fuel oil stocks—though none too ample—should be sufficient to pull the nation through the winter. . . ."

"Paralleling the development of the modern drug and cigar store, gasoline service stations after the war may emerge as roadside shopping centers, handling a wide variety of products. . . ."

25 years ago

(FROM THE ISSUE OF FEB. 15, 1970)

"Chicago merger specialist W.T. Grimm & Co. has detected, in its annual merger survey, a sharp rise in incentive-type consolidations during 1969. There were 728 incentive payouts, or 12% of all mergers last year, up from 305 (7%) in 1968. In this kind of merger, the purchase price is based partly on the future profits."

"The number of U.S. trucking companies is headed rapidly downhill, a recent transportation seminar heard from Dr. L.L. Waters, transportation and business history professor at the University of Indiana. Instead of 25,000 at the end of World War II, fewer than 14,000 trucking firms remained in 1969, and Waters predicts they will diminish by almost half again within ten years."

10 years ago

(FROM THE ISSUE OF FEB. 11, 1985)

"The failure of the U.S. nuclear power program ranks as the largest managerial disaster in business history, a disaster on a monumental scale. The utility industry has already invested \$125 billion in nuclear power, with an additional \$140 billion to come before the decade is out, and only the blind, or the biased, can now think that most of the money has been well spent."

"Gerald Mitchell, chairman of Dana Corp., can't tolerate bureaucracy. The big manufacturer of auto and truck parts had record revenues last year of about \$3.6 billion, but Mitchell's corporate staff in Dana's Toledo, Ohio headquarters numbers only 85. In December Mitchell demonstrated something else he can do without—investment bankers. That's when Dana agreed to acquire Illinois-based Warner Electric Brake & Clutch Co. for \$157.5 million. Mitchell and his staff negotiated the deal themselves. Mitchell figures he saved \$1 million in fees that way. 'We can always use \$1 million,' he says."



Dana Corp. Chairman Gerald Mitchell proved lean could be very profitable.

Crime in the city streets is more than a political issue. It's a too rampant fact. . . . In Indianapolis they have come up with a most sensible, affordable approach to the problem. Policemen are assigned their police patrol ears for personal use after hours. They are encouraged to use the police ear while taking the family shopping, to the movies, and everywhere one takes one's family. "As a result," says the Police Chief's assistant, "we may have as many as 400 ears on the street instead of 100 or so per shift." [And] the presence of the police ear obviously indicates the proximity of policemen.

—MALCOLM FORBES

The cause of that stunning 1994 election reversing Congressional parties' power? Why, of course—the gripes of wrath!

—FRED HILLEGAS

Everything in the world may be endured except continuing prosperity.

—GOETHE

A golf course is the epitome of all that is purely transitory in the universe, a space not to dwell in, but to get over as quickly as possible.

—JEAN GIRAUDOUX

More people would learn from their mistakes if they weren't so busy denying that they made them.

—ANONYMOUS

A Text. . .

If a man say, I love God, and hateth his brother, he is a liar; for he that loveth not his brother whom he has seen, how can he love God whom he hath not seen?

—I JOHN 4:20

Sent in by Dr. Alvin E. Houser, Fort Worth, Tex.

What's your favorite text?

The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

We despise all reverences and all objects of reverence which are outside the pale of our list of sacred things. And yet, with strange inconsistency, we are shocked when other people despise and defile the things that are holy to us.

—MARK TWAIN

Ability has nothing to do with opportunity.

—NAPOLEON

Take care to make things turn out well. Some people scruple more over pointing things in the right direction than over successfully reaching their goals. The disgrace of failure outweighs the diligence they showed. A winner is never asked for explanations.

—BALTASAR GRACIAN

A good architect can improve the looks of an old house merely by discussing the cost of a new one.

—ANONYMOUS

I've learned that if your teenager doesn't think you're a real embarrassment and a hard-nosed bore, you're probably not doing your job.

—44-YEAR-OLD'S DISCOVERY

The art of being wise is the art of knowing what to overlook.

—WILLIAM JAMES

Listen to everything a man has to say about what he knows, but don't let him advise you about what he doesn't know. And usually he doesn't know too much about what's best for you.

—BARNEY BALABAN

Old men are always advising young men to save money. That is bad advice. Don't save every nickel. Invest in yourself. I never saved a dollar until I was forty years old.

—HENRY FORD

None are homely who smile.

—ROBERT HALF

A fellow doesn't last long on what he has done. He has to keep on delivering.

—CARL HUBBELL

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A black and white photograph showing the interior of a car. The focus is on the front seats, which are upholstered in leather with visible stitching. The driver's seat is on the right side of the frame, and the passenger seat is on the left. The dashboard and steering wheel are partially visible in the background. The overall lighting is dramatic, with strong highlights and deep shadows.

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A FORD LATELY?**





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**February 27, 1995
Volume 155
Number 5**

FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes Inc. All rights reserved. No part of this publication may be reproduced without permission in writing from the copyright owner. This publication is protected through a trademark registration in the U.S. Patent Office. Subscription rate: \$57 a year.

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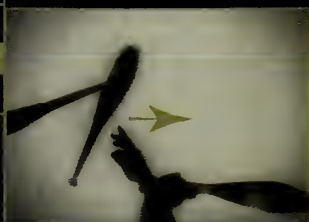
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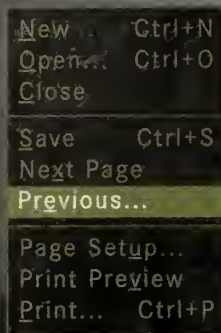
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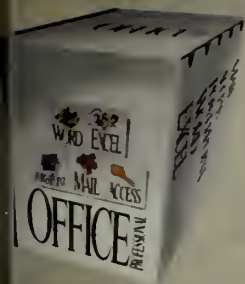
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A strange coincidence?

IF WE DO NO OTHER GOOD DEED THIS YEAR, we'll still be pretty proud of this one: Thanks to a story in FORBES, more than 500 people will soon go back to work in the depressed western Pennsylvania steel town of Sharon, Pa. Here's how it happened:

We delight in identifying up-and-coming entrepreneurs. More than ten years ago (*June 4, 1984*) we wrote about an MIT graduate of Indian descent who was fast becoming one of Britain's most successful businessmen. His name: Swraj Paul. His company: Caparo Group Ltd. Paul had done a remarkable job of nursing rundown metal-fabricating businesses to profitability. We got to know Paul and kept in touch, and a couple of years back he told us he was expanding his corporate reach to the U.S. He had acquired a slow-growing division of National Intergroup in Chesterfield, Mo. and made it the nucleus for a thriving operation (*Dec. 20, 1993*). There's no such thing as a bad business, Paul said at the time; just poorly run ones.



Swraj Paul

Meanwhile, Sharon, Pa. (pop. 17,533) was in bad shape. Sharon Steel, the town's mainstay, had been closed since November 1992, four years after being looted by the notorious Victor Posner. The town was having no luck getting the plant reopened. Neither was the Pennsylvania Power Co., which had lost its biggest single customer when the mill closed. Richard Ross, then Penn Power's director of economic development, now executive director of the Lawrence County Economic Development Corp., had written 200 letters—but no takers. Not a bite.

But then Ross saw our December 1993 article. "The headline and the photos caught my eye," recalls Ross. "As I got into the article, there was a mention of Mr. Paul's interest in either buying or building a hot mill in the U.S. I put two and two together. It seemed a perfect fit."

He wrote to Paul. A few months later the British steel magnate visited Sharon and struck a deal. The mill will reopen in April, with a beginning annual output of 1.2 million tons of hot-rolled coils; hourly workers will be represented by the United Steelworkers union.

"A strange coincidence," Swraj Paul says of the events that brought him to western Pennsylvania. "I've never seen anything in my lifetime happen like this." We say: We're glad creative business people like Swraj Paul and Richard Ross find us useful.

E-flames

IN OUR JAN. 30 ISSUE David Churbuck took a skeptical look at the gushing media coverage of the Internet. We listed David's Internet address, expecting fire and brimstone from Internet fans. Surprise! We got plenty of E-mail but not much flame mail. A selection appears on page 128. Also from cyberspace, reader Joshua Gerak looked up my personal CompuServe number and messaged me that our Jan. 30 Personal Affairs piece on climbing in the Himalayas showed a picture of Mount Pumori labeled as Mount Everest. Reader Gerak is right.

James W. Michaels
Editor

With AT&T, you can talk your way into a Delta companion ticket.

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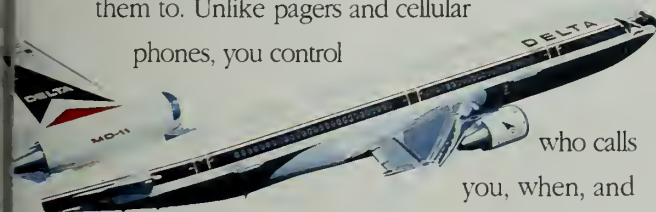
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The king is dead

"WHAT DOES it say about the management of a company when it is embarrassed to hold a meeting in its hometown?" We asked that question three years ago (*June 8, 1992*) about Morrison Knudsen, whose high-living chief executive, William Agee, had shifted the Boise, Idaho-based firm's previous annual meeting to Boston—evidently to duck questions from disgruntled shareholders.

Agee's ego-driven moves into faddish infrastructure and railcar projects—plus accounting gimmickry like capitalizing costs that more prudent managers would expense—we thought smacked of the tricks that got him and previous employers Boise Cascade and Bendix Corp. into trouble. Another danger sign: the high life led by Agee and wife Mary Cunningham Agee far from MK headquarters at their expansive Pebble Beach, Calif. home. Our warnings couldn't have been more on target.

This month the \$2.7 billion (estimated 1994 sales) firm said it will write off additional projects in the fourth quarter, eliminate its dividend, consider selling noncore units and restructure what's left. The writeoffs put MK in default on bank loan covenants, and Moody's promptly cut its short-term commercial paper rating to "nonprime." MK's stock dropped to 9—down 58% since our story. Agee, 57, will soon step down.

His successor will have quite a mess to clean up, and further write-

downs are likely. But Agee's problems may just be starting. A group calling itself the Committee for Excellence at MK and former employees are circulating documents alleging he misappropriated company assets for personal use. Shareholders are also suing MK, Agee and other officers for concealing negative information. The company did not respond to requests for comment.

Much better picture

TWO YEARS AGO Zenith Electronics Corp. was being pummeled by television price wars and was in serious trouble with creditors for violating net worth covenants (*Feb. 15, 1993*). Lately the picture has brightened considerably for the \$1.5 billion (estimated 1994 sales) firm. Zenith logged its first quarterly profit in three years in 1994's third quarter and probably remained in the black through December.



Michael L. Abramson

Jerry Pearlman of Zenith Electronics
The peso's bust could be Zenith's boon.

Several factors account for the turnaround. Consumers are snapping up the Glenview, Ill.-based firm's large-screen TVs. Chairman Jerry Pearlman has forged a new credit line with GE Capital, raised \$108 million in new equity and sold \$26 million in assets. "In things we can control we've made terrific progress," boasts Pearlman, 55.

Then there's the peso collapse in Mexico, home to 80% of Zenith's work force. The lower peso will slice tens of millions of dollars from Zenith's manufacturing costs—a fact that so far has been lost on the stock market, where Zenith's share price has shed 26% of its value over the past three months, trading recently at 10. "Every company with Mexican exposure is being painted with the



Alexandria Jones

Morrison Knudsen's William Agee
His problems may just be starting.

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same brush, says Standard & Poor's analyst Paul Valentine. "But for Zenith it's positive." —LISA SANDER

Nosedive

"USAFRICA is now in the sky but not out of the woods." So we said in our last issue about the first U.S. international airline launched since WWII (*Feb. 13*). No sooner did our story hit the newsstands than USAfrica hit the deck. Ceasing operations, the outfit set up by Arthur Lewis and his son Gregory sputtered for a familiar reason: no capital. The airline—whose strategy was



USAfrica's Arthur and Gregory Lewis
Their airline crashed for lack of capital.

to fly directly between the U.S. and South Africa and thus halve the 36 hours required to do so via Europe—was never in the clear. Only \$30 million from Keystone Custodian Funds at the last minute got it aloft last June. Glitches in forging frequent-flyer ties didn't help stubbornly low load factors and may have scared off additional financing. Then USAfrica missed a payment on its two leased aircraft; American Airlines, which has a marketing pact with South African Airlines, quickly yanked the planes.

Another upstart airline hit some turbulence, too. Kiwi International Air Lines (*Sept. 14, 1992*) recently faced a brief voluntary grounding of its fleet due to a foul-up involving pilot training records. And, amidst a ugly fight for control, founder and Chief Executive Robert Iverson left a huff earlier this month.

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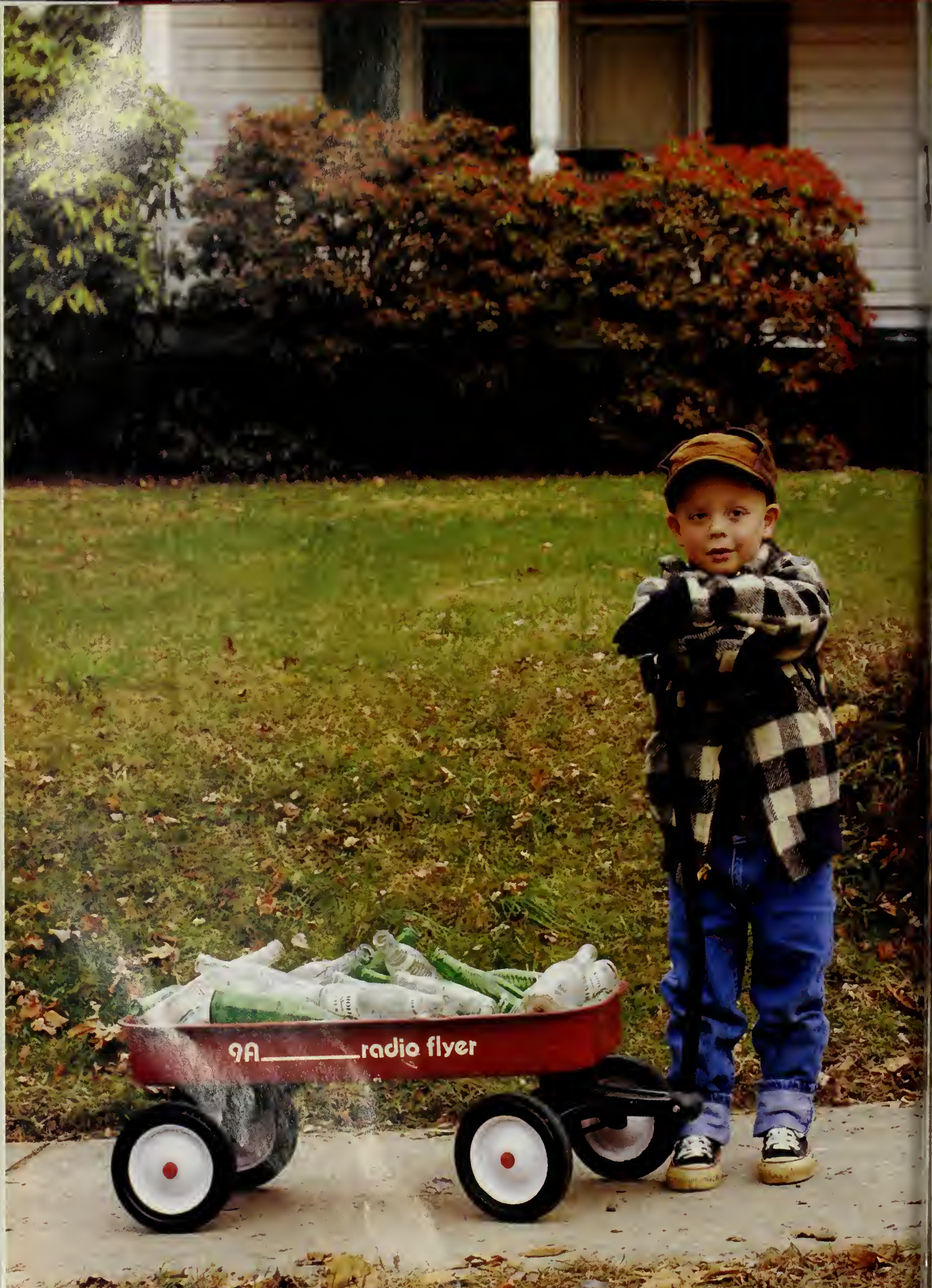
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Sony's day in court

LAST YEAR a Los Angeles firm that wires courtrooms with computer terminals got Sony to donate six of its Trinitron monitors. These monitors are fairly anonymous: Sony's name normally appears as raised lettering in the same off-white color as the rest of the machine. But when an ambitious Sony marketing manager found out the terminals would be installed in the courtroom of Judge Lance Ito in time for the O.J. Simpson murder trial, he had Sony's logo painted in high-profile black. Now, whenever the courtroom TV camera focuses on the witness stand, Sony's name appears prominently behind the witness' head on a nearby monitor



The Simpson trial
A starring role for Sony's monitor.

and is seen by millions of TV viewers.

Sony's response to this free publicity coup? Embarrassment. A spokesman says Sony plans to replace the terminals with ones that have the regular, less noticeable lettering.

—SETH LUBOVE

The personal touch

WHEN Keith Franklin, a Houston-based project executive for IBM, received an invitation to cocktails Jan. 16 at the home of Continental Airlines Chief Executive Gordon Bethune, he thought it was a hoax.

It wasn't. Seems Bethune had learned that members of Continental's Elite OnePass program—for customers who fly 20,000 miles or more a year—were miffed by cut-

backs in OnePass upgrade privileges. To generate some better vibes he invited more than 70 OnePassers living in the Houston area to his house in the city's tony River Oaks neighborhood. An hour into the party, Bethune made a speech admitting the OnePass changes were a mistake and assuring the group that improvements were on the way. One attendee, Teresa Case, says that she was impressed and has started to fly Continental again. But whether Bethune's party will have any discernible impact on Continental's passenger volume remains to be seen.

—LISA SANDERS

Beating dad?

THE SONS OF TWO Wall Street money management heavyweights are wading into the business. Wayne Cooperman, 28, and Ricky Sandler, 25, have raised a \$30 million fund, Fusion Capital Management, with a little help from their dads, veteran money managers Leon Cooperman and Harvey Sandler, who each contributed \$10 million. The young investors met while working as analysts at \$600 million (assets) Mark Asset Management. "We're not just two morons whose fathers gave us money," insists Cooperman *filis*. "We're good analysts who know what we're doing."

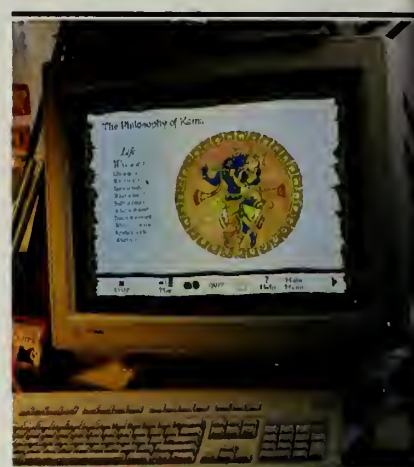
Young Sandler and Cooperman plan to invest in value stocks, and are up 4% since opening their doors on Jan. 1. In 1994 Omega Partners, run by Cooperman *père*, was down 24%, thanks in part to a long position in Mexican stocks.

—RIVA ATLAS

Steaming up the screen

HAPPY Valentine's Day, computer lovers. The Kama Sutra, the centuries-old Hindu tract on the philosophy and art of love, has just come out in an interactive CD-ROM version, *Interpretations of the Kama Sutra*.

The CD-ROM was jointly developed by Repro Interactive, an Indian company that makes software for Apple systems, and FeatherOut, a San Mateo, Calif.-based multimedia firm. It incorporates dance, music, speech, illustrations and sculpture with a new interpretation of the Kama Sutra's text and poems.



The Kama Sutra, CD-ROM version
Interactive erotica.

By and large the product is tastefully done, but parents should know that there is strong erotic content that makes this CD-ROM inappropriate for most kids under 18.

For an example of how users can create their own Kama Sutra frolics, take the "Painting with Sound" chapter, which offers a choice of ten illustrations, six sound effects and six backgrounds. "You could have two lovers in a forest to the sounds of crickets, or have them in a bedroom, set to music," says Repro Interactive boss Dushyant Mehta. Mehta's firm has the distribution rights in India; FeatherOut, the rest of the world. Price: \$49.95.

—SUBRATA N. CHAKRAVARTY

Gold watch time

UNITED AUTO WORKERS' Secretary-Treasurer Bill Casstevens has long been the union's chief negotiator with makers of bulldozers, tractors and trucks. He's retiring when he turns 65 this May—and not a moment too soon in the opinion of some UAW local chiefs.



Bill Casstevens
of the UAW
Retiring not a
moment too soon.

Casstevens' Caterpillar strategy has been a fiasco. Cat workers have been without a UAW contract since 1991. In 1992 Cat beat a 5½-month UAW strike; now it seems on the verge of winning a second strike called last June.

Then there was Casstevens' Navistar flub. Last year, with Navistar factories running flat-out, he failed to consult local members before approving a management plan to hire new workers at lower wages than existing ones were getting. When the plan was put to a vote, UAW rank and file rebuked Casstevens and vetoed it. Finally, last September, John Deere's UAW contract expired and it took a hard line with Casstevens. Talks broke off. Deere workers remain on the job without a contract.

-GARY SAMUELS



Travel advisory

IF YOU PLAN to fly on Feb. 27, give Denver a wide berth. Starting at noon on that day, the Denver airport authority plans an overnight switch from the old Stapleton International Airport to the new, \$4.2 billion Denver International Airport, whose opening has been delayed 18 months because of much-publicized problems with its automated baggage handling system. In the evening, after 6 a.m. Feb. 28, Stapleton will be no more and all flights will be DIA. In practice, expect chaos. Our advice: If you must fly in or out of Denver at the end of February, carry your own bags.

-HOWARD BANKS

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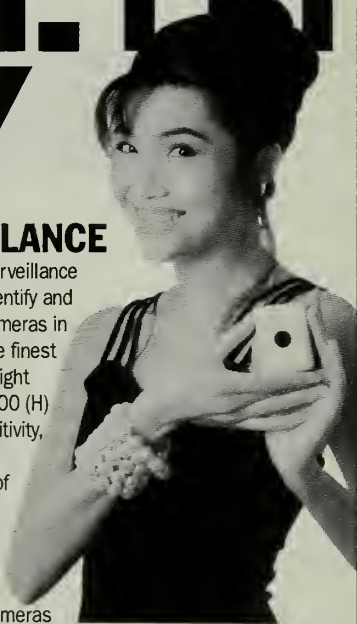
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Changing times

SIR: When public schools decay into prison-type environments and prisons are managed like well-run profitable hotels, it becomes a sad reflection of present U.S. values ("A surefire growth business," *Jan. 16*). Isn't it time for a change?

—MARIE FORTINI
Brooklyn, N.Y.

Affirmative reaction

SIR: That was a stomach wrenching article on the Indian-born son of a chess champion who takes advantage of the affirmative action program, paying \$8 million for a paging license that others would have to pay \$19 million for ("Faces Behind The Figures," *Jan. 16*). Shouldn't this opportunity be given to white males, born in this country, who are trying to pull themselves up by their bootstraps? It is time that we help all native-born Americans to achieve the best that they can be.

—JOHN A. LOCONSOLO
Brooklyn, N.Y.

SIR: I must have been confused as to the purpose of affirmative action. I always thought it was designed to provide opportunities for the disadvantaged. Now I know that it is designed to further enrich successful bankers and millionaires. If these programs cannot be made to target the truly disadvantaged, they should be terminated.

—BARRY N. SWEET
Morgantown, W.Va.

Golden rule

SIR: Re Fact & Comment (*Jan. 16*). Over the past 2,000 years dozens of countries have had hundreds of periods in which money was linked to gold, but with only one exception the gold standard was always abandoned within a few years.

The one exception to a short-lived gold standard was Britain, where from 1844 to 1913 there was no devaluation or interruption of payment. During that period, the Bank of England was a private bank, and common law required that it redeem its notes at their stated value.

My point is that the only time in

world history when a gold standard was successful for long periods of time was when the world's money was dominated by the notes of an independent private banking system. That is exactly the result that a free market economist should have expected and, in retrospect, I and others have been foolish to attribute to a yellow metal the success which was due to the private enterprise system.

—CHRISTOPHER R. PETRUZZI
*Professor of Taxation
California State University
Fullerton, Calif.*

The mother of management

SIR: Re "The mother of them all" (*Jan. 16*). More than a visionary of management, Mary Parker Follett was indeed a prophet of the information age. Much has been said about the shifting from mass production and economy of scale in an industrial age to a focus on the customer, responsiveness and flexibility. It is less obvious that what kept her tenets obscure was the ascendance of the intervening financial age, in which the bottom line and return on investment reigned supreme.

—JAMES K. HO
*Professor of Information
and Decision Sciences
University of Illinois
Chicago, Ill.*



Mary Parker Follett
A woman before her time.

No way!

SIR: Re "Oilman, trader, banker, spy" (*Jan. 30*). There is no basis at all for believing that there is any connection between the Arochem losses and Iraqi arms trading. The total transactions between Arochem and Bayoil were small in amount and in total dollars. It is inaccurate to state that the banks did nothing to try to trace the losses. Extensive efforts were made, at substantial costs.

—RICHARD C. TUFARO
*Partner
Milbank, Tweed, Hadley & McCloy
Washington, D.C.*

Defensive play

SIR: Re "Children as footballs" (*Jan. 16*). At the heart of the welfare tragedy is absent fathers. Does Dr. Sowell realize it takes two to produce a child? One-sided portrayal of welfare mothers having children simply to get federal subsidies does not further an intelligent welfare debate.

—LESLIE KLFINHERSEL COOTE
Evanston, Ill.

A chronic problem

SIR: Bravo to FORBES for exposing the practice of prescribing expensive treatments to "cure" chronic fatigue syndrome. Patients desperate to regain health are prime targets for those guaranteeing miracle cures ("Chronic fee syndrome," *Jan. 30*). With a Centers for Disease Control study showing only 12% of CFS patients recover, your article rings a timely warning bell that cautions the remaining 88% to be wary of "miracle cures" (thus leaving their pocketbooks, if not their health, intact).

—JANE PERLMUTTER
*Communications Director
Chronic Fatigue Immune Dysfunction
Syndrome Activation Network
Larchmont, N.Y.*

SIR: As a sufferer of chronic fatigue syndrome, I found your article extremely offensive.

—CASSANDRA TEX
Arcata, Calif.

For E-mail letters responding to the *Jan. 30* story about the Internet, see the *Computers/Communications* section.

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With all thy getting get understanding"

Fact and Comment

by Malcolm S. Forbes Jr., *Editor-in-Chief*



RUSSIA REMAINS A BEAR-SIZE WORRY

MEXICO'S SELF-INFLICTED economic wounds have temporarily pushed Russia off the front pages. But not for long. Russia is infinitely more important to our future safety, and the country continues to unravel.



High inflation and a nearly nonexistent rule of law discredit democracy and free markets.

Because Yeltsin has survived so many crises and because there is no powerfully organized opposition within the military or security services, Westerners are assum-

ing Moscow will somehow muddle through, that its sort-of democracy will somehow stay intact. But this "muddling through" won't be the tame, British variety. Russia is fully sliding toward dictatorship, not the bloody, Stalin-type that slaughtered millions, but more of the old-time, Latin American if-you-are-not-against-us-we-will-leave-you-alone strongman rule. Russia is supposed to hold a presidential election next year, but no Russian will wager on a worthless ruble that this will come to pass.

The government is tightening pressure on independent pockets of the media. An article in the *Moscow Times*, "Russia's Creeping Coup," warns that "the next blow will be struck against the media—television first. Trial measures have already been taken. We will find ourselves once again feverishly scanning the airwaves for foreign radio stations and listening for footsteps approaching our doors."

Russia's Weimar-like deterioration and the turmoil in neighboring states underscore the importance of preserving U.S. radio broadcasting to that part of the world. In the post-Berlin Wall era, the budgets of Radio Free Europe/Radio Liberty and the Voice of America have been dramatically cut, and there are rumblings in Congress of eliminating them totally in the name of deficit reduction.

The GOP must avoid such an isolationist lurch. Having CNN, faxes and information overload, we in the West assume those troubled areas have access to all the news they need. The reality is that there is very little independent media in Russia and virtually none on a national scale. The same is true in almost all the successor states of the former U.S.S.R. An occasional fax is no substitute for a vibrant, daily free press.

To get information about what is going on in these countries, you need on-the-ground networks of reporters and stringers. Radio Liberty is the only Western news organization that has these in place.



Media in the former U.S.S.R. is still limited, largely fettered or under government pressure.

Russia and its neighbors are not the only ones needing U.S.-sponsored radio broadcasts. Asia is in a period of political turmoil: China has a long history of political earthquakes; North Korea remains a nuclear enigma; Bur-

AN EASILY AVOIDABLE TRAGEDY

Last month I testified before the Senate Foreign Relations Committee with economists Larry Kudlow and Sidney Weintraub and with former S&L bailout boss William Seidman. Except for Dr. Weintraub, we opposed the Administration's Mexican rescue package. President Clinton subsequently sidestepped Congress, but this move still doesn't deal with the bill's original flaws.

The Administration's bailout package will not solve the Mexican economic crisis. It will not stop a wave of illegal immigrants from trying to cross our borders. It will not induce the Mexican government to adopt the measures necessary to restore the integrity of the peso

and get the economy quickly on its feet.

It is absolutely important to understand the true nature of this crisis and what must be done to resolve it.

The Administration was correct in that until Decem-

(continued on p. 144)

ma's totalitarian dictatorship is hard at work expanding its drug trade. Yet Congress may kibosh an Administration request to set up a Radio Free Asia service.

Another small, effective (nonbroadcast) agency under the congressional gun is the National Endowment for Democracy. Set up by Ronald Reagan to help fund nascent democratic and dissident projects and organizations around the world, the NED has had remarkable success even though its budget is under \$35 million. (Disclosure: I sit on its board.) The NED was nearly wiped out in 1993

and will certainly face further, ferocious assaults this year.

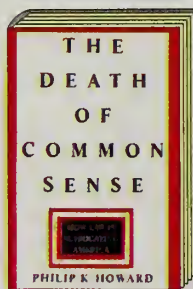
At a time when every Beltway program is being examined and adherents are pleading absolute necessity, Congress may be tone-deaf to arguments favoring RFE/RL, the VOA and the NED. But Republicans need to exercise sound judgment, remembering their party's unfortunate history regarding "foreign entanglements" in the 1920s and 1930s. Ceremonies marking the 50th anniversary of the liberation of Nazi death camps are grim reminders of the price we and the world paid for that ostrichlike attitude.

HOW AMERICAN LAW WENT HAYWIRE

The Death of Common Sense—by Philip K. Howard (Random House, Inc., \$18). A seminal work that cogently, credibly, concisely explains what has gone wrong with American law, why it breeds an unending flood of regulations, kills common sense, balloons do-nothing bureaucracies, encourages endless litigation and creates and exacerbates social tensions and hatreds. The author, a lawyer horrified by what has happened to his professional passion, packs this gripping volume with blood-boiling anecdotes of the absurd outcomes of today's regulation/litigation-happy environment.

What happened? A combination of turn-of-the-century Progressive notions that law-making and governing were sciences to be carried

out by experts; a powerful 1960s legal-intellectual movement that, in the name of fairness, tried to remove all human discretion in formulating and carrying out regulatory mandates; and a big dose of hubris in thinking that laws and government regulations could solve all problems, resolve all conflicts and make life risk-free.



Excerpt: *One basic change in approach will get us going: Stop looking to law to provide the final answer. Life is too complex. Our public goals are too complex. Hard rules make sense only when the protocol—as with the rules of a game or with specific limits—is more important than getting something done. Accepting the imperfections and asymmetries of human nature is probably the bitterest pill for those schooled in the modern age.*

WATCH SWITZERLAND

WOULD-BE WELFARE REFORMERS in this country should take a look at Switzerland. Unlike other Western nations', Switzerland's welfare is not financed by the central government but by municipalities. In essence, the Swiss see welfare as Americans once saw education: a service that should be controlled and financed at the grass-roots level.

Because Swiss public assistance is funded locally, residents work hard to insure that people's stay on it is as short as possible. Time limits are strict. Communities help recipients get back on their feet and into the work force.

One reason welfare has ballooned in other countries is lack of accountability. Because the financing comes from seemingly distant sources such as Washington or the state capital, local residents feel no obligation to insure that welfare is viewed as a temporary condition, nor do they feel a responsibility to get recipients productively off the rolls.

Local involvement is a critical reason that Switzerland's "incidences of social pathologies"—crime, drug abuse, out-of-wedlock births, etc.—are far lower than those neighboring European nations and the U.S.

HE HAD IT RIGHT—AND STILL DOES

JACK KEMP has announced he won't seek the 1996 Republican presidential nomination. Too bad for the GOP and the nation. A spirited Kemp candidacy would have had a wonderfully positive impact on the evolving views of other candidates. As chairman of Empower America, a grass-roots reform organization that Kemp cofounded two years ago, I see firsthand his zeal for promoting economy-expanding, pro-individual opportunity policies.

Republicans are right to focus on downsizing the intrusive, arrogant, incompetent federal government. But they must offer a positive progrowth agenda to first consolidate and then expand its beachhead as the majority party. Cutting budgets, busting bureaucracies, reducing regulations are all means to an end, not ends in and of themselves. If the Federal Reserve continues its misbegotten monetary policy, the economy will experience unpleasant weather. Republicans must respond with more than: "Let's balance the budget."



Robert Trumpet/Sipa

Kemp himself will, happy-warrior-like, continue to speak out forcefully on issues such as taxes, gold, the peso, immigration, the status of the District of Columbia, etc.

He has already achieved far more in public life than most other public figures, including a number of our presidents. The Kemp-Roth tax-cutting bill of the late 1970s moved the spirit of the Republican Party away from crabby, root-canal proclivities. Ronald Reagan made Kemp-Roth the centerpiece of his economic program, triggering our long peace-time expansion. The resultant boom enabled the U.S. to finance its largest peace-time military buildup, while defense spending never absorbed more than 6.5% of GNP. This was a contrast to the 1950s, when

Pentagon outlays routinely exceeded 10%. The buildup, particularly the much maligned "Star Wars" effort, played a critical role in demoralizing the Soviet Union and in our winning the Cold War.

Frauenkirche
Dresden, Germany



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DRESDEN, FREEDOM RISES FROM THE RUBBLE. Germany's greatest church, the Frauenkirche, was bombed flat in 1945. Where Bach and Wagner once performed, there now lies only broken rock. But recently, stonemason Franz Huber and a team of other artisans and architects began to painstakingly resurrect the city's symbol of harmony. Once IBM reconstructed the Baroque landmark in 3-D cyberspace, the team could begin to rebuild the ruins. Guiding them is an IBM RS/6000™ running CATIA™, computer-aided design tool. By 2006, the church will reach to the heavens once more, thanks to 18th-century craftsmanship and a powerful 21st-century tool. What can IBM help you build? Call 1 800 IBM-3333, ext. G102, and find out.

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Other Comments

Feast and Famine

THE ISSUE that permeates the question of a balanced budget amendment is spending, not taxes.

It is similar to the old economic example of a half-dozen people who go out to dinner and beforehand agree to split the bill evenly among themselves regardless of what any particular person orders. Given that set of rules, every dinner partner has a strong incentive to order the most expensive dish on the menu—even though the total bill may far exceed what any one of them wishes to pay for dinner.

—MARTIN ANDERSON, senior fellow, the Hoover Institution

Real Reform Can Work

[MEXICO SHOULD ESTABLISH] an Argentine-type currency board, where peso money supply creation is limited to the value of foreign exchange and gold reserves on hand. Then the peso should be relinked to the dollar at a fixed exchange rate, which would effectively dollarize the Mexican economy and end discretionary monetary fine tuning. To back up the currency board, Mexico can draw on its roughly \$20 billion credit lines from the U.S. Treasury's exchange stabilization fund and available IMF bridge loan resources. Wage and price controls should be lifted,

tax rates on capital and labor income should be reduced, and privatization should be stepped up. This would restore confidence, and global capital inflows would resume. U.S. loan guarantees would be unnecessary.

Voters who want smaller, more frugal government at home, with an emphasis on personal responsibility, expect no less in our policy dealings abroad.

—LAWRENCE KUDLOW, economics editor, *National Review*, before the Senate Foreign Relations Committee

Being perfectly well dressed provides a feeling of tranquility that religion is powerless to bestow.

—RALPH WALDO EMERSON, quoted in "Ties & Men" by Vic Gold, *The Washingtonian*

Idea Man

AT THE 1992 GOP convention in Houston Republicans were painted as "extremist," "exclusionary" and "right-wing." The anti-GOP rhetoric will likely be harsher still in 1996 as Newtoids try to shrink government and are attacked for lack of compassion.

Only one Republican back in Houston seemed immune from such criticism: Jack Kemp. He was seen as "inclu-

sionary," "tolerant" and "idealistic."

Kemp is a man of ideas—particularly about inclusion and growth economics. Says one GOP activist: "The rest of the field is only about small government."

—BEN WATTENBERG, senior fellow, American Enterprise Institute, *New York Post*

Born Leader

WHEN Princess [later Queen] Victoria was ten, she began to study a book of genealogical tables of the kings and queens of England. Startled, she turned to her governess and said, "I am close to the throne than I thought." Victoria's eyes filled with tears. Then, solemnly, she raised her right forefinger and made the famous declaration, "I will be good."

—ROBERT K. MASSIE and JEFFREY FINESTONE, *The Last Courts of Europe*

S.O.S.

THE ORIGINAL IDEA of Supplemental Security Income was splendid. It was to help old, disabled and blind Americans. It is no longer recognizable.

When recipients receive cash assistance but no rehabilitation or job training, there is a disincentive to work. When SSI payments are higher than AFDC payments, parents are egged on to qualify their children as disabled. Drug addicts, offered cash, have little incentive to conquer the addiction because it means losing SSI benefits.

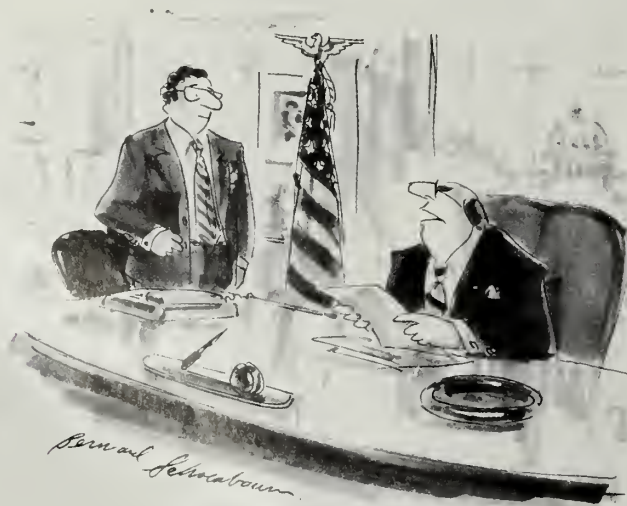
The American taxpayer is willing to help those who genuinely merit help but no longer to subsidize the addicted, the ignorant, the mischievous and the work-shy.

—MORTIMER B. ZUCKERMAN, editor-in-chief, *U.S. News & World Report*

What a Bargain

THE MAHARISHI MAHESH YOGI, guru to the Beatles and Mia Farrow, among others, offered to send transcendental meditators to Broward County, Fla., to stop crime by emitting harmonic vibrations. The cost: ten cents a day per county resident, or \$47 million a year.

—*The Progressive*



Drawing by Bernard Schenbaum. © 1994 The New Yorker Magazine, Inc.

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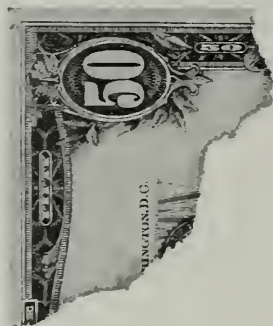
14M

Queen Elizabeth 2

A photograph of a yellow chicken with a red comb and wattle, standing on a white background. The chicken is facing left and slightly towards the viewer. The text "Stop feeling like this." is overlaid in the center of the image.

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Commentary

on events at home and abroad

by Caspar W. Weinberger, *Chairman*



NATIONAL SECURITY REVITALIZATION

WHEN NEWT GINGRICH (R-Ga.) first presented his "Contract with America," the plan was immediately attacked by the Democrats as a program that would take us back to the days of Reaganomics. This attack was one of the worst mistakes in the history of political strategies—going back to Reaganism is exactly what the people wanted.

On Jan. 26 Secretary of State Warren Christopher committed a similar error when he warned the House International Relations Committee that the National Security Revitalization Act (H.R. 7)—one of ten bills that constitute the Contract—"would threaten to end U.N. peacekeeping overnight" and would "deal

peacekeeping a lethal blow." Given what we have seen of U.N. peacekeeping, it is likely that most Americans would not mind giving it a lethal blow so we could start over. Also, Mr. Christopher, as he is so often, was wrong.

H.R. 7 does not prohibit a President from sending U.S. troops abroad. It only restricts his power to *subordinate* those troops to U.N. command. Even such subordination could be allowed if a President were to certify that a particular operation was vital to our national security interests and were to tell Congress why it was necessary to put our troops under the command of a foreign nation *acting on behalf of the U.N.*

H.R. 7 also provides that the U.S.' share of any U.N. peacekeeping costs be credited against, so as to reduce, our annual U.N. dues. Currently we are assessed 31.7% of the U.N. peacekeeping budget. The next largest amount, 15.5%, falls to Japan. H.R. 7 would reduce the U.S.' peacekeeping portion to 25%, which would still leave us paying twice as much as Japan. H.R. 7—besides linking our funding of the U.N. to required, significant management reforms—forbids an administration to raid the defense budget to pay for peacekeeping. As the Heritage Foundation points out, these charges should be paid by the State Department or other agencies that have been the most eager to have us engage in peacekeeping missions.

The most flagrant examples of this "peacekeeping" that Mr. Christopher is so worried about are in Bosnia and Somalia. The U.N. has contributed 23,000 lightly armed troops to Bosnia. Theirs is a confusing mission of helping both sides. They are dangerously scattered in widely separated

pockets of that war-torn land and can do nothing to "keep" a "peace" that does not exist. They can only assist in feeding hungry people when the Serbs allow it. Somalia was a similar situation. Peacekeeping can be helpful or useful only if all parties involved in a dispute agree to peace and to having forces there to prevent a renewal of hostilities.

Mr. Christopher told the House Committee that H.R. 7 would leave the U.S. the choice of "acting alone or doing nothing" in an emergency. Not true. The bill does not prevent the President from organizing a coalition outside the U.N., as did President Bush in the Gulf. It

does not hamper the President's ability to conduct foreign policy. In fact, none of Mr. Christopher's jeremiads is correct. This bill simply recognizes that the U.N. is incapable of conducting military operations, even when it is not blocked by Russian vetoes.

H.R. 7 also commits Congress to reversing the "downward spiral of defense spending." The Heritage Foundation points out that President Clinton proposes defense reductions of more than \$156 billion through 1999—over twice what he proposed in his 1992 campaign. The "Contract with America" notes that the General Accounting Office found that we fall \$150 billion short of the amount needed to carry out our basic

military strategy over five years. A GOP budget presented in 1994 provides for \$60 billion of that amount, and H.R. 7 creates a commission to review defense needs and recommend ways of securing the balance.

Part of our defense funding shortfall is due to extended U.N. peacekeeping activities, which are being paid for by canceling needed new weapons systems, vital research and development, and missile defense. (But H.R. 7 directs the Defense Department to "develop for deployment an antiballistic missile system [and] advanced theater missile defense systems," and "not later than 60 days after the date of the enactment of this Act, submit a plan [to Congress] for the deployment of [these] systems.")

It is hoped the new Republican majority won't be misled by Mr. Christopher's misreading of H.R. 7. Under this bill a President can use our forces to protect our peace and freedom; only if he feels he must do so under a weak and irresponsible U.N. would he be restrained—as he should be. ■



Warren Christopher: One of the least "ept" of the inept Clinton foreign policy team.

Barry Kaye: the force behind the \$7 trillion Wealth Creation and Preservation Industry

At age 66, Barry Kaye is more passionate than ever about what he does. Appearing on national TV and speaking at over 110 seminars around the country each year, he shares his insightful and thought-provoking ideas about wealth creation and preservation with thousands of fascinated listeners. Yet he still calls himself an insurance salesman. Those attending one of his Wealth Creation and Preservation Seminars would probably call him an Evangelist! By Arlene Davidson

For years, Barry Kaye has stormed the country, giving as many as five 3-hour seminars in a week. Then back on a plane, he's off to the next city. Roaring at his audience, he tells them, "Use your intelligence and common sense. Use logic. Don't be a victim of conventional wisdom! Don't you understand, the more you have, the more your mistakes will cost you!"

Kaye convincingly conveys the concept that insurance can not only preserve worth, but increase it -- in part by keeping the tax collector's cut at a minimum. He makes it very clear that there is a way to pay Uncle Sam every cent of the estate taxes due and still leave their entire fortune to their families.

Someone asks, "How can you do that?" "I told you," he shouts, "Insurance

is the most powerful tool you can use." He also tells them his concept is not for everyone. "If you've got to deprive yourself, forget it! Go have a good time! Let your kids worry about themselves. But if you've got 'junk money' (discretionary income you don't need for daily living expenses) sitting in the bank, that's your kids' legacy! That money can be working to create future generations of millionaires for your family."

Kaye claims his seminars are about estate tax cost discounting, not insurance. Insurance is simply the funding mechanism used to pay those taxes at a great discount. How safe is it? Very. He can't even cite an example of any insurance company that has not paid off. Calling his seminars to order in a booming voice, he commands, "Do I have your

attention? I hope so, because with my *Die Rich and Tax Free System*, I can show you how to reduce your estate tax costs up to 90%, leverage your IRA or pension ten to twenty times and increase your \$600,000 estate tax exemption up to \$5 million. Are you interested?" They're interested.

Kaye has more energy than three 20-year-olds. And his enthusiasm and zeal are contagious. His children, Alan, Howard and Fern, who work at his side, share his passion for the family business -- and for The Wealth Creation and Preservation Industry.

Kaye tells those attending his dynamic seminars, "There are two things you can count on. You will die. And you will pay estate taxes! So what are you going to do about it? I say live well. And buy life insurance. He has protected his own fortune with \$23 million in family policies. When he dies, he will leave his children and his grandchildren enough money to live well for the rest of their lives. As a matter of fact, he has created generations of multi-millionaires that have yet to be born.

According to the Bureau of Statistics, about \$14 trillion will be transferred to heirs during the next twenty years, resulting in an estimated \$7 trillion in estate taxes--the basis for today's incredible \$7 trillion Wealth Creation and Preservation Industry. Although Kaye didn't realize the industry's full potential when he first began selling insurance, he always knew people would eventually understand that "as you cure your health with medicine, you preserve your wealth with insurance."

Barry Kaye -- a kid who grew up on the streets of New York, a former radio and TV announcer, life insurance salesman, best-selling author, financial authority and marketing wizard -- hardly realized he was creating a new industry. He recognized a need, used his marketing skills, and sold life insurance because he believed in the results. The rest is history in the making. ■



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*Barry Kaye, founder
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...use life insurance as a powerful tool to leverage the earning power of your IRA, Keogh or pension money, or pay their estate taxes at incredible discounts. My *Wealth Transfer System* has already saved more than \$3 billion for savvy investors, helping them legally reduce their estate costs up to 90%, pay

their taxes at as little as ten cents on the dollar and leave as much as four times more money to their heirs and favorite charities. And I can do the same for you. I suggest doing what so many major financial planners recommend; "Invest in life insurance!" It's so simple I can't understand why everyone doesn't do it.

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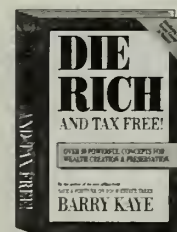
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**Car and Driver* magazine test results published
September 1993.

Seed corn is back in fashion

STUNNING IS THE ONLY WAY to describe the capital spending boom in 1994. Spending on plant and equipment increased in real, inflation-adjusted terms by no less than 17% over the year before. Even more significant, the share of capital spending accounted for by high-technology equipment was 47% (see chart).

The high-technology share is, however, probably even larger than the official numbers suggest. The official category includes spending on such things as computers, peripherals, telecommunications and scientific instruments. But it does not include spending on equipment that embodies lots of chips and software—for instance, machine tools or textile equipment incorporating computer controls.

Recognizing the value of accurate capital spending information, the Commerce Department and the Census Bureau this spring will switch to a new, more reliable method of collecting capital investment data, especially in services. Nobody is saying how much this will

add to investment levels, but the change could be substantial. The new method will, for example, capture such things as leased or expensed personal computers. It will also pick up, for the first time, investment spending by small firms with fewer than five employees.

Another important outcome of the change will be to improve the official measure of U.S. industrial capacity.

A factor behind the Federal Reserve's raising rates seven times in the past year has been the apparent squeeze on capacity (utilization is now up to an 85.4% rate, above the level that is said to lead to inflation). The new higher investment statistics will have the effect of reducing the use rate, maybe by as much as two points, lowering it below the Fed's trigger level.

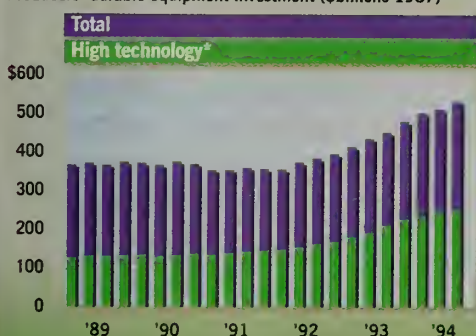
Investment spending is expected to continue to increase in 1995, perhaps by another 9% to 10% in real terms. This strength is being driven by corporate profits, which are at an alltime high in real terms. Cash flow, which is the best indicator of future investment levels (see this column, May 24, 1993), is also at record levels.

Capital goods production, which now accounts for around 9% of the U.S. economy, contributed roughly one-third of the U.S.' 4% economic growth last year. The sector could account for an even greater share in 1995. With world economic growth picking up, especially in Europe, growing U.S. capital goods exports should more than offset any slight slowing in domestic investment rates.

Note: The last time the capital goods sector carried the burden of economic growth, in the early 1980s, the dollar was one-third stronger (on a trade-weighted basis) than today. A weaker dollar will make U.S. capital goods even more competitive.

High-tech wedge

Producers' durable equipment investment (\$billions 1987)



*Computers, peripherals, telecommunications, etc.
Source: Bureau of Economic Analysis

A Mexican deal written in sand

THE MONEY FOR THE MEXICAN BAILOUT is already pouring across the border. By the first week in February, the U.S. Treasury had sent \$2.5 billion from an existing \$9 billion swap fund created before the present crisis. Then the International Monetary Fund, despite intense objections from many European governments, sent \$7.8 billion.

Yet note this: There was, at the time this issue went to press, no written agreement, no specific deal on paper between the U.S. and Mexican governments. The actual conditions the Mexicans will have to comply with in exchange for the bailout were still in the early stages of negotiation.

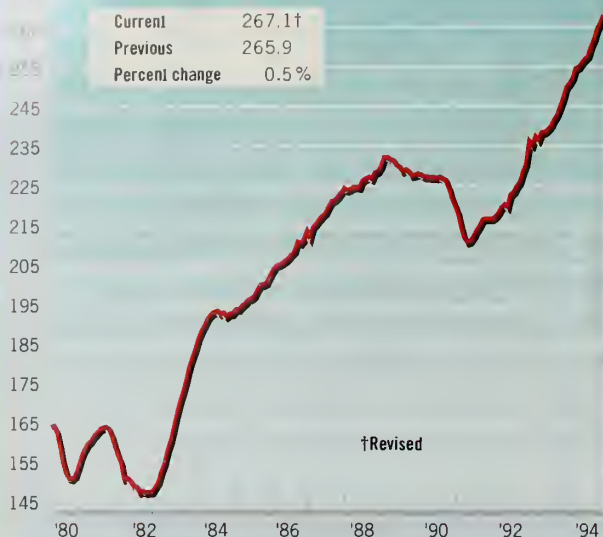
In theory, Mexico must sign an agreement

before it can tap the \$20 billion exchange stabilization fund from the U.S., another \$10 billion from the IMF, \$10 billion from the Bank for International Settlements, plus \$2 billion shared by Canada and a bunch of Latin American countries. In reality, the money will probably flow whether or not a deal is signed.

Assuming Mexico does agree to some conditions on, for example, privatization and an economic austerity program, how will Mexico's compliance be measured? By using its woefully inadequate economic statistics, a fact that has some in Washington mightily worried.

U.S. Treasury officials remain sanguine. They plan to rely on the reports of IMF staff paying periodic visits. Cold comfort, that.

The Forbes Index (1967=100)



Has the Federal Reserve tightened too much? So fear Morgan Stanley economist Stephen Roach. He notes that inflation in the manufacturing sector is rising faster than in the more representative services sector—the reverse of earlier decelerations in inflation. Roach thinks the Fed overemphasizes the threat of inflation by ignoring the moderate growth in wages and is concentrating on price increases for things like commodities. Meanwhile, the Forbes Index for December shows a 0.5% gain for the month and a respectable 7% increase for 1994.

Other key rates

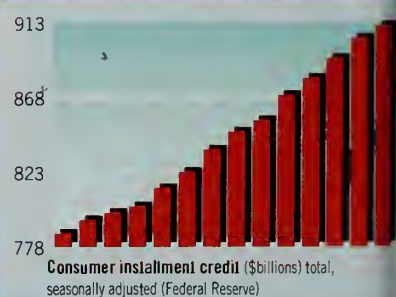
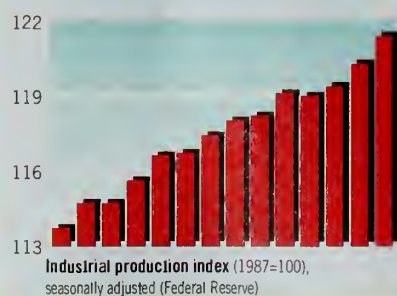
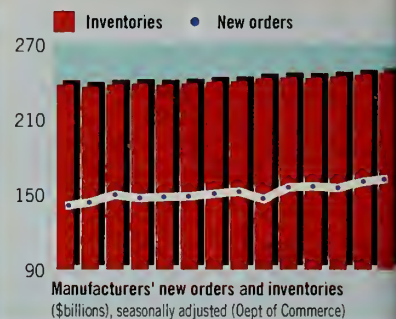
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1994 ¹	Ward's Automotive	-3.4%
Index of leading indicators Dec vs Nov	Dept of Commerce	0.1%
Trade balance ² 12 months ended Nov 1994	Dept of Commerce	-\$105 bl
All-commodity producer price index ³ Dec vs Nov	Dept of Labor	0.2%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	4.5%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	0.4%

¹ U.S.-based manufacturers, excludes imports, as of 1/31/95. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



N D J F M A M J J A S O N D

N D J F M A M J J A S O N D

N D J F M A M J J A S O N D

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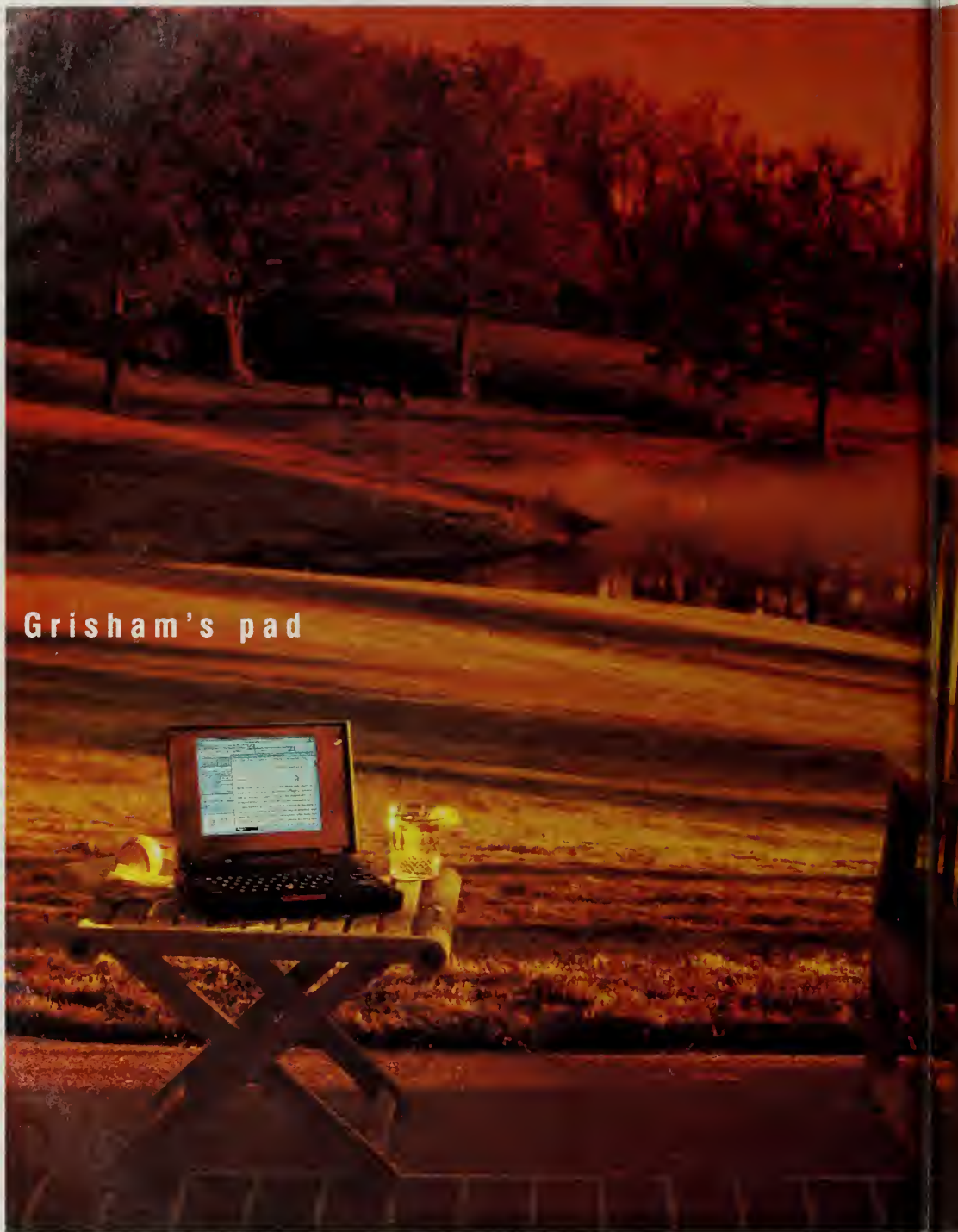
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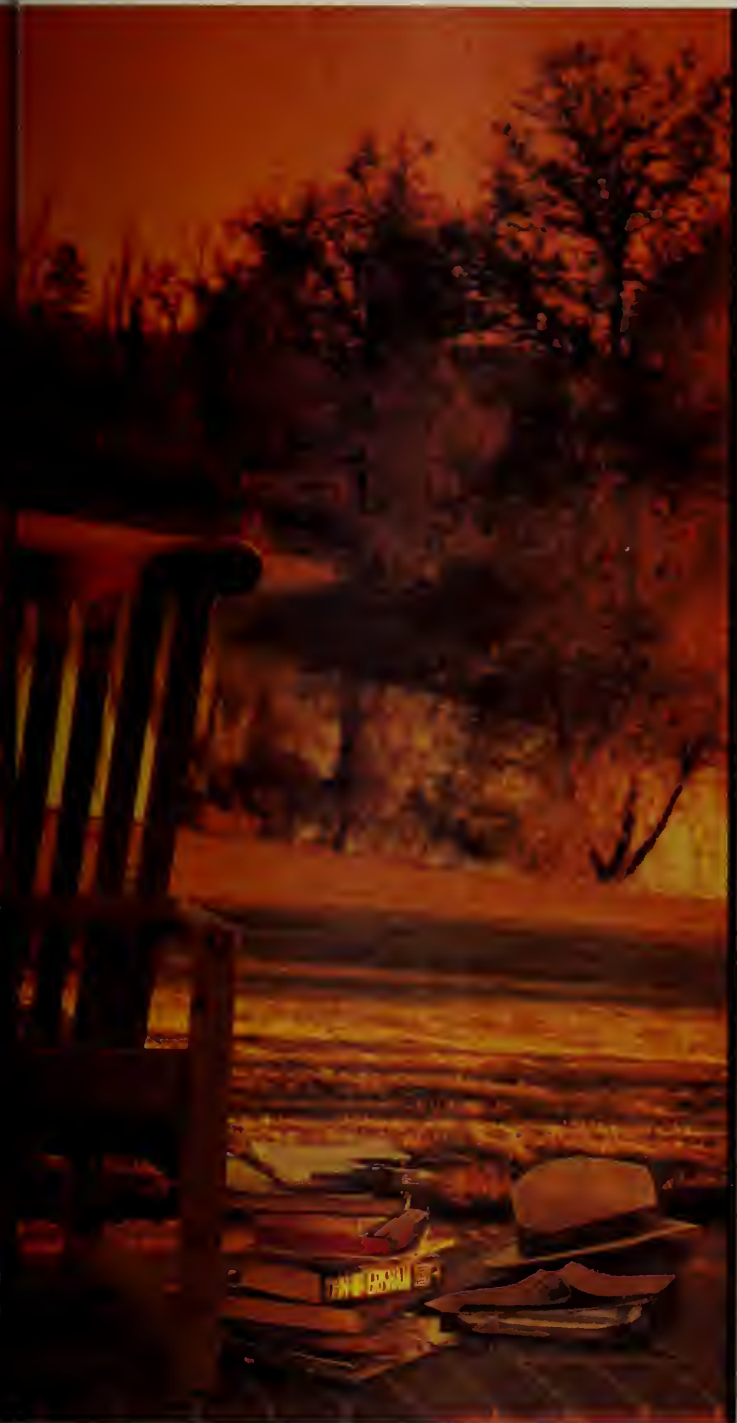
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(John) Grisham's pad



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When it comes to leverage, even the U.S. junk bond artists could learn a trick or two from François Pinault, a French financial artist whom the home folks call . . .

Capitalist without capital

By Ellie Winninghoff

MENTION THE NAME François Pinault in California business circles and all you will get is a shrug. Mention the name around the Paris Bourse and almost anyone will respond, "Ah! le capitaliste sans capitaux," the capitalist without capital.

The capitalist-without-capital could have a lot riding on the decision of a California court. This 58-year-old Frenchman controls Pinault-Printemps-Redoute (sales, \$18 billion), a retail octopus of 70,000 employees that operates under such names as FNAC and Prisunic and sells everything from electronics to cosmetics. He hopes soon to control a lot of famous U.S. names as well. Last year he bought 50% of Aurora National Life Assurance Co. of Los Angeles, the reincarnated Executive Life Insurance Co. Two years ago he bought about half of Executive Life's junk bond portfolio from a subsidiary of the government-owned bank Crédit Lyonnais. In Executive Life's portfolio rested control of such quintessentially American companies as Florsheim shoes, Samsonite luggage, Converse sneakers, Vail Mountain resort, Chi-Chi's restaurant and more.

The California Court of Appeal is about to decide whether to rescind what may well be the greatest financial coup of the decade: the 1991 "auction" of Executive Life Insurance Co.'s \$6 billion junk bond portfolio to junk bond vulture Leon Black and his client, Altus Finance, a subsidiary of Crédit Lyonnais (see FORBES, Mar. 14, 1994). If that sale is undone,



Printemps store
The Paris landmark every tourist knows.

Executive Life's former policyholders will go after the bonds themselves, the assets they've turned into or the profits generated by them.

It has recently become clear that François Pinault is the major moneyman behind Leon Black, the onetime Drexel Burnham Lambert underling who has risen to wealth and power amidst the ruins of the Drexel Burnham empire. He is the largest limited partner in the Black partnerships that managed the junk bonds and now would have claim on the assets that stood behind some of the junk bonds.

If he is unknown in the U.S., Pinault is very much part of the tight little group that runs France. "He is an outsider, but he works with the establishment and is protected by it," says French shareholder activist Collette Neuville. One close friend: Jac-

ques Chirac, former conservative prime minister, now candidate for president. A former henchman of the right-hand man to socialist Michel Rocard. Pinault's business adviser is Alain Minc, éminence grise to Prime Minister Edouard Balladur.

The American financial types who built empires on junk bond financing have nothing to teach François Pinault. When Leon Black was looking for backers he did not have to do a lot of explaining to Pinault. Many of the junk bonds in Executive Life's portfolio defaulted during the artificial induced junk bond crisis of 1989 and 1990 and later were converted into controlling equity stakes in companies with sales of over \$20 billion. These were mostly good companies. They defaulted simply because they were overleveraged or were unable to roll over maturing debt.

Pinault knows all there is to know about leverage. At 16, he quit school to log trees for his father's sawmill in



François Pinault

His takeover techniques have left unhappy shareholders.

litrany. After his father died, he decided he could make more money trading wood than producing it. During the recessionary Seventies, Pinault built a wood empire by picking up 10 small and medium-size businesses and outlets for virtually nothing, mostly in bankruptcy court.

In 1985 French bankruptcy court was a vulture's paradise—as it became a few years later in the U.S. after the collapse of Drexel Burnham. A change in French law had made it easier to take over busted companies at a fixed price regardless of their debt. Pinault leaped, staging two coups that bought him fame and notoriety in France. In 1986 he paid one symbolic franc for the equity of Isoroy (sales, \$70 million), France's dominant but bankrupt plywood manufacturer. He turned Isoroy around in six months.

Another big deal followed; both involved political string-pulling. By 1988, when Pinault Group went public, it was involved in all phases of wood

production and distribution save for owning the forest. Pinault was called "le roi du bois," the king of wood.

He soon became a king of leverage, but instead of using junk bonds to get assets with paying cash, he used stock. Compagnie Française de l'Afrique Occidentale (1989 revenues, \$3.6 billion) was a trading company with roots in French colonialism. Between 1989 and 1990 he acquired a third of the company. Under French law that is called a blocking minority, and, at that time, once you had it you were obligated to bid for another third. But Pinault didn't bid. He merged the trading company with his wood business.

When the dust cleared, Pinault had grabbed the remaining two-thirds of CFAO for about 20% more than the first third he had bought. Without any cash. In fact, he netted cash from the

entire deal. Two or three months after he took control, he sold a CFAO subsidiary for about \$590 million. In December 1990 he sold CFAO's chic downtown Paris headquarters—to Crédit Lyonnais—for \$250 million. In April 1991 Pinault bought Conforama (1991 sales, \$1.4 billion), a home furnishings chain. Price, \$870 million. Again, a paper transaction.

Next prize: the retailing conglomerate and department store chain Printemps (1991 sales, \$7 billion). After winning over—and later firing—its chief executive, he bought the controlling block of stock, but he engineered the deal so he did not have to meet the requirements of French law when acquiring control. This saved him from having to buy the whole company. But he still had to buy two-thirds, so he swapped Conforama for two-thirds of Printemps. It was virtually a no-cash deal and one that left a lot of unhappy Printemps shareholders. Every time Pinault made a deal the minority shareholders seemed to come out with less market value than they went in with.

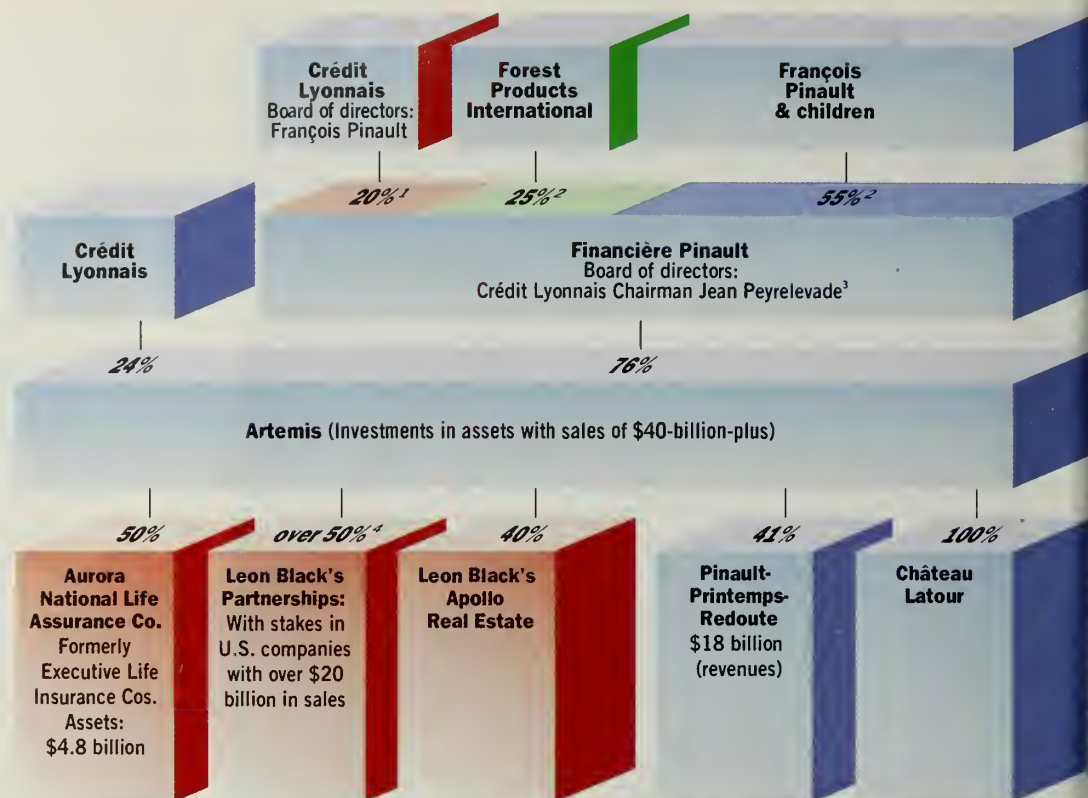
The deal also left Printemps deeply indebted. In 1989 Pinault Group owed \$76 million; in 1992, after he merged it with Printemps, it owed \$3.2 billion. Hence the new title: capitalist without capital.

Pinault-Printemps, as the merged company was called, suffered dwindling profit margins in the early 1990s, and the debt became difficult to carry. In 1993 Pinault began dumping assets. But the prize outfit, 54%-owned La Redoute, the Printemps subsidiary (revenues, \$3.2 billion), was throwing off gobs of cash. Should he sell that? No way. It would be smarter to find a way to consolidate it on Pinault-Printemps' books. With just another 41% of the stock he could do this under French law.

Lacking cash to make a tender, he simply merged the companies, giving Redoute's shareholders Pinault-Printemps stock. The share exchange would depend partly on relative market prices. At this point a very convenient thing happened for Pinault. During the five weeks prior to the merger announcement, Redoute's shares dropped 15%—despite good results and a rising stock market. More luck: During the previous four

A family relationship

Crédit Lyonnais, François Pinault and Leon Black are closely interconnected. The exact relationship is hard to nail down and often changes.



¹Les Documents d'information, Assemblée Nationale. ²A December 1992 Pinault-Printemps financial document.

³Crazy Lyonnais, by Eric Leser, Calmann-Lévy, 1995. ⁴Estimated.

months, Pinault-Printemps' share price rose 47%—despite poor results.

The outcome was a share exchange that was, to put it mildly, most satisfactory for François Pinault. French securities regulators at the Commission des Opérations de Bourse (COB) launched an investigation into the convenient coincidence, but in December it said it had found no evidence of wrongdoing.

The French have lots of reason to be cynical about their government, and the way mergers work in France gives them more reason. The court appoints merger commissioners to analyze and bless valuation of the two companies and come up with a fair parity between them. Pinault chose the court's supposedly independent commissioners, and provided them with the data they analyzed in coming to their decision. By law, Pinault-Printemps also paid them.

Redoute's board included three directors who also served on Pinault-Printemps' board. Conflict of interest? By U.S. standards, yes; here the duplicate board members would have abstained from voting on the merger. No such scruples exist in France.

So, there's no mystery why this consummate manipulator of capital structures should be entranced by the possibilities inherent in the old Executive Life junk bond portfolio.

FORBES has raised many questions about the wisdom and even the legality of the transfer of the Executive Life junk bonds to Leon Black and his partner, a subsidiary of Crédit Lyonnais. Among other things, under U.S. law, banks may not own or control industrial companies. Before the auction took place, Leon Black had to promise the Federal Reserve his partner would comply with these laws. With the sale of about half the assets to Pinault's company the following year, that promise seemingly was kept.

Or was it? True to his sobriquet as capitalist-without-capital, Pinault borrowed the purchase price from the same bank that did the selling, Crédit Lyonnais. The purchase lifted Pinault's debt, which is divided between the new holding company created to buy the bonds and Pinault-Printemps, to a towering \$5 billion. Crédit Lyonnais, meanwhile, remains a partner in the company with the assets. This is a holding company named Artemis; it

also owns Pinault's 41% of Pinault-Printemps-Redoute.

Are you, the reader, somewhat confused at this point? That's probably what Black, Pinault and the folks at Crédit Lyonnais hope for. Maybe the courts and regulators will be confused, too.

What is Pinault's relationship with Crédit Lyonnais? Good question. The bank is 80%-owned by the French government, but it clearly has a high regard for François Pinault. "Crédit Lyonnais and Pinault have a family relationship," a prominent French attorney explains delicately. "It's hard to know who's the father, who's the son, who's the brother, who's the nephew. It is completely interconnected."

Yes, indeed. Last year, saddled with bad loans and requiring government cash infusions, the bank appointed Pinault—reportedly one of its top three debtors—to its board.

This much is clear: All these French folks will be mighty disappointed the California court undoes the Executive Life auction. To the extent the profits from Executive Life don't go out Crédit Lyonnais, the French taxpayer may have to.

conservative with a sense of humor, the creator of *Mallard Fillmore* is bringing the comic strips some of the same fresh air Rush Limbaugh brought to broadcasting.

Take that, Doonesbury!

Dana Wechsler Linden

URING THE Bush presidency, Garry Trudeau's popular *Doonesbury* comic strip skewered the White House with irreverent depictions of Dan Quayle in a feather and George Bush placing a "manhood in a blind trust."

Well, move over, *Doonesbury*. Here comes *Mallard Fillmore*, a new comic strip duck (and conservative television reporter) who takes a dim view of the Clinton White House and the left-leaning press. In *Mallard Fillmore* strips, Clinton staffers walk around with paper bags over their heads out of embarrassment, and there's a government-imposed three-day waiting period for buyers of high-fat movie popcorn. A curmudgeon who hates political correctness, Fillmore was named only after his station identified him as an "Amphibious-American."

In the era of Newt Gingrich and Rush Limbaugh, Fillmore has become the hottest launch of any comic strip in years. After only nine months

of national syndication, *Mallard Fillmore* already appears in 250 newspapers (dailies and Sundays), or about 1 out of every 10 in the nation. That's much faster out of the gate than either *Peanuts* or *Garfield* in their first years.

Financially speaking, *Mallard* still isn't near Trudeau—*Doonesbury* runs in some 1,400 newspapers and has spawned numerous books. Fillmore has even further to go to equal *Peanuts* creator Charles Schulz, who earned some \$18 million last year between syndication fees, book sales and licensing of *Peanuts* characters on everything from greeting cards to kids' bandages. By *FORBES* estimates, *Mallard's* annualized syndication fees now run \$260,000, split between the cartoonist and the distributor, King Features Syndicate.

But in the comics business, the big money comes later. And plans for books and plush, stuffed Mallards are already in the works. "That's the brass

ring," says King Features Executive Vice President Lawrence Olsen, "and I think we're going to grab it."

"I saw *Mallard* as tapping into a mood a lot of people were in," says editor George Althoff of Decatur, Ill.'s *Herald & Review*, which replaced *Doonesbury* with *Mallard* after a readers' poll came out heavily in the duck's favor.

Even Portland's *Oregonian*—a daily so politically correct that it refers to the Washington Redskins as "Washington's football team"—caved in when readers voted 4,720 to 3,547 in a telephone poll to keep *Mallard*. "Everybody Duck," columnist Bob Caldwell publicly lamented after the votes came in.

Mallard was hatched nearly five years ago by editorial cartoonist Bruce Tinsley, then at the *Daily Progress* in Charlottesville, Va. In Tinsley's last series of strips for the daily, *Mallard* took aim at the National Endowment for the Arts. "One [strip] asked what would happen if Michelangelo walked in and wanted a grant," recalls Tinsley. "The NEA liked the naked people but objected that God was a man—what would the impact on little girls be?"

Told that his conservative message didn't fit with the publisher's vision, Tinsley was fired—in his view, another victim of liberal McCarthyism. A year later, he found a home at the conservative *Washington Times*, and in 1992 King Features Syndicate approached Tinsley about picking up the strip.

"Timing is everything, and the timing is perfect," says King Features' Olsen.



Is Disney's Michael Eisner about to make a major acquisition? Unless his stock cools down, he may strike soon.

"We will not dilute"

By Lisa Gubernick

FOR MONTHS the Walt Disney Co. has been a favorite kicking boy of the business press. "Now Playing: Disney in Turmoil," poked the *New York Times* last fall. "A dead investment mouse," sniped CNBC and *Money* magazine stock tout Dan Dorfman in mid-November. The stock was then at 44. In early February it hit an alltime high of 53¼—an addition of \$5 billion to Disney's market cap.

Propelling the stock was strength in nearly every aspect of Disney's business. Earnings for the first quarter of fiscal 1995 were announced on Jan. 26: \$482 million, 91 cents a share, far more than even Wall Street's most bullish predictions. The Street now thinks Disney will earn upwards of \$2.50 a share, up another 20%.

Looking trim, confident and fully recovered from coronary bypass surgery in July, khaki-clad Disney Chairman Michael Eisner leans over a Coke at a Hollywood hotel and tells FORBES that Disney's earnings momentum will continue. "We have a good brand," says Eisner, "and we know how to manage it."

Nearly every division is doing well: **Merchandising:** Ten years ago Disney sold only \$110 million of Disney merchandise. Last year the figure was \$1.8 billion. By 1998, says Barton Boyd, Disney consumer products head, it will be around \$3.6 billion. Sales of Mickey & Co. clothing for teenagers and grown-ups are growing by 30% a year, through department stores and Disney's 352 own specialty shops. Eisner has just reclaimed the license for the Winnie the Pooh line of characters from Sears, Roebuck—which should mean a whole new line of merchandise this year.

Theme parks: After a year of California earthquakes, European recessions and headlines of violence against

tourists in Florida, attendance at Disney's theme parks is rebounding. In Europe, attendance is up more than 6% for the first quarter of fiscal 1995. Florida park attendance in December was up 8% over December 1993. And the rebound should continue as new

marketing campaigns are unfurled. "We needed to take another look at who our potential guests could be," says Judson Green, head of the theme parks division. New ads will promote the Disney parks to an audience broader than the traditional family—



couples without kids, for example, and retirees.

Animated films: Hoping for another *Aladdin* or *The Lion King*, Disney will release *Walt Disney's Pocahontas* this summer to theaters, and as a sell-through video, if it follows *The Lion King's* precedent, in early 1996. Further ahead, Eisner eagerly awaits the introduction of digital video disk technology now being created by Sony and Toshiba; these disks will replace videocassettes and usher in a new stream of licensing revenues.

"We may be the main beneficiary," says Eisner. "We have 33 animated classics that can be repackaged all over again."

No snakes in the Magic Kingdom's grass? There's one: the live action film

studio. Roth cut studio overhead by 25% and pared the live action film release schedule to about 25 a year, from Katzenberg's more than 40.

Roth is also getting more bang out of the Disney name by using it on more films. An example: Last Christmas' *The Santa Clause*, starring hot Disney property Tim Allen, was originally developed by Hollywood Pictures, one of Disney's grown-up divisions. To expand the potential audience Roth marketed the film as a Disney product, and *The Santa Clause* became one of the year's biggest surprise hits, with box office receipts of \$142 million.

"Putting 'Disney' on it made it wholesome," explains Roth, who adds the film should sell at least 10

General Electric's Jack Welch to talk NBC. But the prices the sellers want turn him off. Both GE's Welch and CBS' Laurence Tisch are said to be looking for 11 times cash flow for their networks—that would price NBC at roughly \$4.5 billion, CBS at \$5.5 billion.

"I'm not in the business of making Jack Welch or Larry Tisch rich men," says Eisner. "We will not dilute our stock."

But that argument loses some of its force as Disney's stock climbs. At 52 a share, Disney is trading at over 21 times earnings. At a recent 61 per share, CBS sells for 17 times earnings. In essence, then, Eisner could offer CBS shareholders Disney stock worth up to 25% more than CBS' current price,



Eisner's Michael Eisner, and scenes from *The Santa Clause* and *Pocahontas*—**don't forget distribution.**



division, which last year lost some \$50 million. "Way before anybody found out, we were unhappy with the direction in live action," says Eisner. "We decided we were going to act on it before the world had us act on it." Translation: It was Jeffrey Katzenberg's fault. Disney studio boss Katzenberg quit last August after Eisner refused to name him president of Disney, the late Frank Wells' old job. The press had a field day with Katzenberg's departure, claiming his absence would seriously jeopardize Disney's future. But along with his successes Katzenberg was also responsible for *Fatherhood*, *Cabin Boy*, *Holy Matrimony* and other disappointing live action films.

Eisner replaced Katzenberg with independent producer Joseph Roth and charged him with cleaning up the

million copies when released on videocassette before next Christmas.

The rising value of Disney's equity presents Michael Eisner with an interesting problem. It increases the pressure on him to make a major acquisition, perhaps of a television network—NBC and CBS are on the block.

Unlike Time Warner (see p. 88), Twentieth Century Fox or Viacom's Paramount, Disney has no broadcast or basic cable TV network over which to distribute its programming. This could present a problem because pending changes in program syndication rules will soon permit TV networks to own pieces of the programs they broadcast. Disney may either end up having to share ownership of the next *Home Improvement* or *Ellen* (Disney's two top prime-time TV hits) with broadcasters, or risk not being able to get its programs on the air.

Or Disney could buy a network of its own. Eisner says he's kicked a few network tires; he took a dinner with

without diluting the earning power of Disney's shares. And that excludes whatever synergies might arise.

"There would be giant synergies to owning [a network]," enthuses Richard Frank, Disney's chairman of television and telecommunications. "From the parks to the specials, things we sell anyway, we'd be able to theme them out a little more—cross-promote, put on Disney golf tournaments."

One Hollywood executive who has worked closely with Disney (and asks to remain nameless) thinks if the stock continues to climb, Eisner may be hard-pressed *not* to make a move. "There is a point at which he has to use his stock," says the source. "It becomes overpriced [relative to target companies' stocks] and cheapens the acquisition. The beauty of Disney is the board is solidly behind Michael. He can sit there and be cagey, then sneak up on someone. Why should he show his hand?"

While some utility executives embrace competition, Houston Industries' Don Jordan fights it tooth and nail.

"This is about money"

By Christopher Palmeri

LAST MONTH Houston Industries Chairman Don Jordan sold his company's nine-year-old cable television subsidiary to Time Warner for \$2.2 billion, some \$650 million more, after taxes, than he invested in it. Much of the price will be paid in Time Warner preferred stock convertible into 5% of the entertainment conglomerate's equity, giving Houston Industries significant say in Time Warner's future (*see story, p. 88*).

Getting out of cable means Jordan, 63, can now focus more intensely on Houston Industries' own by no means certain future. Houston Industries is a \$3.8 billion (revenues) utility that has long enjoyed monopoly rights to supply electricity to consumers in the greater Houston area. It earned 12.4% on shareholders' equity for the 12 months ended in September, above average for utilities in its region.

But, as in cable television, competition is breathing fire into the electric utility industry. Houston Industries' territory is the refining and petrochemical capital of the world. That means a lot of big industrial customers that could buy their electricity cheaper from other sources if Texas ever opened up its power market. Burdened with excess capacity, many local independent power producers want to sell directly to Houston Industries' customers.

"We will drop rates in Texas," vows Charlie Goff, boss at \$727 million (revenues) Destec Energy, a publicly traded independent power producer



Houston Industries Chairman Don Jordan

Facing a powerful fight in Texas.

73% owned by Dow Chemical. "Old plants will go down."

Don Jordan is making life as difficult as possible for Goff and other would-be competitors. Since Destec's contract to supply electricity to Houston Industries' Houston Lighting & Power unit expired in December, Goff has been trying to sell as much as 1,000 megawatts of electricity—enough to power 1 million homes. Under current law Destec cannot sell power directly to any of Houston Industries' customers but may sell to utilities and to big municipalities that buy their own power. But for that Destec must distribute its power over transmission lines owned by Houston Industries.

When Destec tried to sell power to the City of San Antonio last summer, Houston Industries charged transmission rates substantially above what the city might have paid for power bought from a utility. San Antonio has since negotiated transmission rates that are a third of what they were

paying initially.

While owning the transmission lines gives it clout, Houston Industries also has weaknesses. It owns 31% of the long troubled South Texas nuclear plant. After years of bungling by politicians, utility commissioners and managers, the \$5.5 billion plant is finally operating at capacity. But its high cost is a major reason Houston Industries' rates are high by Texas standards. Last month Houston Industries offered to settle a rate case by rolling back rates at a bottom line cost of \$43 million (or 34 cents per share) every year.

Jordan has been investing in electricity generating and distribution facilities overseas; he says Houston Industries could be earning \$100 million a year in profits from these ventures by the end of the decade. Shorter term, decreased interest costs coupled with dividends (\$41 million a year) from the Time Warner preferred stock should boost earnings in spite of the rate rollback.

But the threat of competition will only grow. Texas independent producers will most likely win legislation that insure open access to, and reasonable pricing on, the big utilities' transmission lines. A nastier fight will come over whether the independents can sell directly to big industrial customers, a process known as retail wheeling. Houston Industries and other Texas utilities have proposed a ban—forever—on retail wheeling, arguing that smaller customers' rates will rise if independent producers are allowed to cherry-pick the utilities' best customers. The proposed ban won't pass, but the utilities and their lobbyists will probably keep retail competition at bay for years.

Jordan makes no apologies for his efforts to protect Texans from competition. Thunders he: "One thing you have to remember is that this is not an argument about who can supply power the best or how the customer can benefit. It is purely about money—who's gonna get it, who gonna pay it."

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OUGH TO APPRECIATE THE
E IS PART OF THE APPEAL.

Banc One's strategists thought they could pay almost any price for a bank and still make good money. The Chicago market taught them a lesson.

Hubris in Columbus

By Marcia Berss

IMAGINE OWNING the five-and-dime when Wal-Mart comes to town. That's how Chicago bankers felt in mid-1991, when Columbus, Ohio's giant Banc One entered the Chicago metropolitan area by buying First Illinois Corp. for about \$350 million. Recalls one Chicago banker: "Every-one was scared to death."

They needn't have been. Operating mainly in Chicago's northern suburbs, First Illinois Corp. was earning a strong 1.3% on assets of around \$1.7 billion before Banc One (current assets, \$88 billion) came along. For the 12 months ended Sept. 30, 1994, First Illinois, re-named Bank One Chicago, earned just 0.6% on assets.

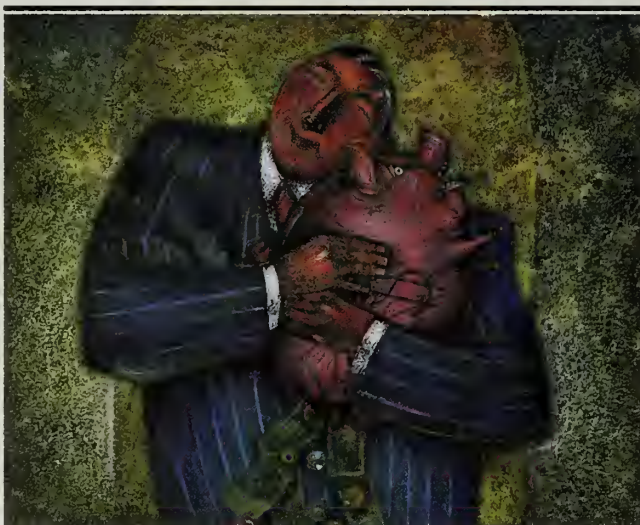
Before the sale, assets were growing at an annual compound rate of over 5%. Under Banc One they grew at a compound rate of only 1% through the first half of 1994.

Banc One was no novice at the acquisition game. It has bought 150 banks in 25 years and has consolidated them very efficiently. Banc One's return on assets for the 12 months ended Sept. 30, 1994 was 1.4%, among the top in the industry.

What happened with First Illinois seems to have been a case of hubris in Columbus. Banc One Chief Executive John McCoy agreed to pay a very rich 2.7 times book value for First Illinois. This was nearly 70% higher than the typical Midwest bank of similar size was fetching at the time, ac-

cording to a study by consultants Booz, Allen & Hamilton. "Looking back, it was an extremely high price," concedes Stanley Calderon, a Banc One veteran who moved from Texas to become Bank One Chicago's chief executive in mid-1993.

Some area bankers believe that First



Illinois, which has only a 1% share of the entire Chicago metropolitan market, was meant to be Banc One's beachhead in Chicago. From there the Columbus team would acquire other Chicago banks and gain critical mass in the market. But the high price they paid for First Illinois put stars in other sellers' eyes.

"Once they [Banc One] paid too much, they trashed the market for everyone, including Banc One," says a Chicago banker who asks to remain anonymous. Banc One, never violating its rule against dilutive acquisitions, shopped but didn't buy.

Banc One traditionally dominates midsize markets, and there are signs that the Columbus team did not fully appreciate the costs of doing business in a big city like Chicago, by far Banc One's largest urban market. Marketers from Banc One headquarters declared they wanted to introduce Banc One to Chicago with full-page newspaper ads and television spots. Then they learned that the advertising costs would wipe out Bank One Chicago's earnings for the year. The marketers settled for heralding Banc One's arrival by stuffing announcements in Bank One Chicago's monthly statements.

After the acquisition closed, salaries and benefits at Bank One Chicago burst out of control. In the first three quarters of 1994, payroll expense was nearly 37% higher than the same period in 1991. The number of employees ballooned 19%, from 752 prior to acquisition to 897 in 1993.

Calderon blames the problem on a poorly executed merger of First Illinois' data processing facilities into Banc One's systems. Service fell during the switchover, generating more complaints and more people to service the complaints. "We do most [data processing conversions] pretty well," says Calderon. "This one didn't go as well as we'd like."

Calderon says most of Bank One Chicago's bugs have been ironed out and it is now poised to make good money for its new parent. In 1994's third quarter, as-

sets jumped 9% and the workplace head count was down 7% from its 1993 peak. In November Banc One said it's cutting over 4,000 employees; up to 300 will exit Chicago.

When Banc One's stock price recovers—recently 28% a share, it was selling at just 1.5 times book value and 24% below its 52-week high—Chief Executive McCoy will probably start buying banks again. But this time he'll go forth knowing it takes more than Banc One's name on the door for an acquired bank to make money. Humility is often a bank's—any company's—best hidden asset.

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Many catalog merchants ended 1994 on a sour note. Prosperity will resume, but for smaller players the bad news isn't over.

Growing pains

By Howard Rudnitsky

IT WAS LIKE watching a tornado coming toward you. Companies in the \$57 billion mail order business knew they were going to have problems, come 1995. Paper prices were going up again—11% on top of a previous 7% rise, with more to come. Third-class postage rates increased 14%

when the new year dawned. These things really hurt in a business that uses more than 2 million tons of paper to put some 12 billion catalogs in the mail. In early 1995 UPS raised shipping rates 4%.

Inflation tamed? Don't tell that to the mail order people, who suffered

price increases way above the official figure of 2.7%. Seeing the blow coming, many of the companies mailed 10% to 15% more catalogs than usual in the fall in an effort to beat some of the cost increases.

The result was what Roger Hamblin, owner of Garnet Hill, a \$40 million outfit based in Franconia, N.H., calls "catalog clutter." Yes, the orders flowed in, but not fast enough to pay for all those extra catalogs. With the average American family already subjected to some 100 catalogs a year, a lot of the extra mailings ended up right in the wastepaper basket. Hamblin says he was watching and waiting early in the season, but sales were slow in spite of the heavy autumn mailings.

When your costs rise and you don't get much additional volume for the spending, the results are predictable. Specialty retailer Spiegel, Inc., whose catalogs include Eddie Bauer and



Newport News, is one of the biggest outfits in the mail order business. Spiegel, which also has over 300 Ed-Ge Bauer retail stores, saw its earnings collapse for the fourth quarter and so for the year. (For other results, see table below.) Publicly traded mail order stocks have been hammered.

Is this then the end of mail order's long-running boom? No way. This business has caught a cold, not pneumonia. WEFA Group, an economic forecasting firm based in Bala Cynwyd, Pa., predicts mail order revenues will grow an average 6% a year over the next three years, compared with an average 4.7% for retail sales.

WEFA economist Michael Raimondi points out that even with the increase in costs, demographic trends still favor the industry. Two-earner families don't have the time to make lots of trips to the mall. Shopping at home is more comfortable and a time-saver. It even enables buyers to avoid state

sales taxes.

One reason profit margins were hit so hard last year was that a number of the larger companies were gearing up for future growth. For example, cataloger Spiegel is in the process of starting up a new \$135 million mail order distribution facility and acquired a telephone order center. Lands' End spent heavily to expand international business and improve customer service with two-day merchandise delivery to replace its former up to five-day delivery.

Fingerhut, which specializes in electronic products and housewares, has been experimenting with new types of marketing. The \$1.9 billion (revenues) company created *USA Direct*, a subsidiary that produces half-hour infomercials to peddle merchandise. It also had invested in S The Shopping Network, a cable TV channel that never got off the ground.

Some of these companies' expenditures should pay off handsomely in the future. However, the rise in costs and the increasing sophistication of the marketing and technology mean that a shakeout is at hand. Many smaller firms will have to merge, sell out or even close down. The most vulnerable catalogers, says Thomas Tashjian, managing director of First Manhattan Co., are those with revenues between \$30 million and \$70 million. The small guys will have trouble growing and competing with the

larger companies.

Why? Those larger companies benefit from tremendous economies of scale. For example, a large mail order firm may buy 50 million minutes of time for its 800 number; another firm may buy only 4 million minutes. "The cost per minute by the phone company for a small mail order firm is twice that for a larger one," says Coy Clement, an executive vice president at Hanover Direct, a \$760 million (revenues) mail order merchant based in Weehawken, N.J. The big boys can buy paper cheaper, too.

Bulk customers get discount third-class postage rates. In theory these lower rates are available to smaller companies as well. However, not many of them can qualify. The discounts come only if they do things like presort catalogs by five-digit zip codes, bundle them in packages, and ship them to 21 bulk mail centers or other dropoff locations around the country. Small operators aren't staffed up for that kind of sorting and so pay higher mailing costs.

Many small mail order houses still don't provide bar codes to enable the post office to employ optical scanning. They may get hit with higher postal costs in 1996 should the revenue-desperate post office decide to reclassify the non-bar-code category.

Michael McSweeney is president of Dimac Direct, a direct marketing company that does a good deal of

Spiegel's Columbus, Ohio distribution facility "We will be able to take a phone order before noon, ship out the item by 4 o'clock."



Recovery expected

Company	Primary products	Revenues	Earnings per share		Recent price	52-week price range	
		1994 ¹	1994	1995		high	low
		(\$mil)	estimates ³				
Blair Corp	apparel	\$535	\$4.50	\$4.60	38½	46⅞	36½
Damark Intl	consumer electronics	477A	0.59A	0.88	6½	31	5¾
Fingerhut Cos	consumer products	1,900A	1.31A	1.58	14¾	33¼	14
Gander Mountain	outdoor wear	246 ²	0.52 ²	0.71	14	19½	10¼
Hanover Direct	home furnishings, gifts	760	0.12	0.19	3¼	7⅞	2⅞
Lands' End	recreational apparel	1,000 ⁴	1.10 ⁴	1.30 ⁵	16	27¾	13
Lillian Vernon	gift, household	225	1.44 ⁶	1.72	17½	22½	14½
Spiegel, Inc	apparel	3,000	0.31	0.78	9½	26¾	8¾

¹Including non-mail-order revenues where applicable. ²Actual June 30, 1994. ³Estimates unless followed by A for actual reported figures. ⁴Fiscal year ends Jan. 1995. ⁵Fiscal year ends Jan. 1996. ⁶Fiscal year ends Feb. 1995.

Sources: IBES, Inc.; Forbes estimates.

Despite rising costs, there's growth ahead for big mail order companies.

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business with mail order firms. Declares McSweeney: "The combined effect of postal reclassification, paper and other cost increases could be devastating."

Expensive technology, often beyond the reach of smaller outfits, makes the big outfits more efficient. Take Spiegel's state-of-the-art distribution facility in Columbus, Ohio. Says Spiegel President John Shea, "We will be able to take a phone order before noon, ship out the item by 4 o'clock, and in many parts of the country it can be delivered at your home or office the next day or so. That compares to three days later with our old Chicago facility, which we will

Not all the smaller catalogs will disappear. The whales will swallow many minnows.

be closing."

Shea figures that in five years CD-ROMs will supplement printed catalogs. But developing the use of CD-ROMs may be beyond the means of smaller outfits.

In breaking into the promising overseas markets, too, size is an advantage. Lands' End, L.L. Bean and Spiegel's Eddie Bauer are launching and expanding catalog operations in such countries as Japan, Germany and the U.K.

This doesn't mean that all the smaller catalogs will disappear. The whales will simply swallow many of the minnows. Says Hanover Direct Chairman Alan Quasha, "In addition to normal mail order industry revenue growth, you could also see growth from consolidation."

The process has already started. Hanover Direct, which owns names like Domestinations, a large home textiles marketer, San Francisco specialty retailer and cataloger Gump's and the Company Store, has hit the acquisition path. In January it announced it bought Leichtung, a \$35-million-a-year catalog merchant specializing in tools and home improvement items. Other acquisitions are expected later in the year.

A giant industry is entering a consolidation stage.

Oil giant Royal Dutch/Shell is flush with cash and assets. But profitability is sagging.

Slow payoff

By James R. Norman

NO OIL COMPANY has been more of a darling to the institutional investor set than Royal Dutch/Shell Group—the world's biggest public oil company. The word "big" doesn't do justice to Royal Dutch. The group encompasses assets of \$100 billion, invested in every aspect of the oil business almost everywhere. Its 1994 revenues are estimated to have been \$127 billion; its \$12 billion of cash and marketable securities equal those of a fair-size bank. This sprawling empire is owned 60% by Netherlands-based Royal Dutch Petroleum, with London-based Shell Transport & Trading owning the rest. Their combined market value: \$100 billion.

But the institutional investors don't love Royal Dutch just for its heft. Over the past decade its dividend has more than tripled. That helped quadruple its stock price; despite that, Royal Dutch still yields 5%. The stock is rather like a bond with an inflation-adjusted coupon.

Beneath the surface, however, trouble brews. Weak oil and gas prices have held the group's operating profit flat for the past decade. Return on assets has slid from barely 7% ten years ago to under 5%, according to Standard & Poor's—a poor showing compared with its major competitors (*see table, p. 64*). Thus the company has been able to maintain its record of



Royal Dutch/Shell Group head Cor Herkströter

Trying to make this behemoth company grow while it sheds fat.

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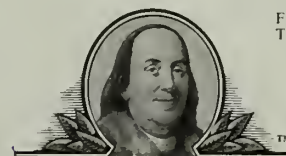
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	Royal Dutch	Amoco	BP	Chevron	Exxon	Mobil	Texaco
Dividend	\$5.10	\$2.40	\$2.35	\$1.85	\$3.00	\$3.40	\$3.20
Dividend/long-term bond rate (7.77%)	65.64	30.88	30.24	23.81	38.61	43.78	41.18
Stock price, Feb. 1	111.88	58.00	77.63	44.63	82.50	86.38	81.63
Price minus "bond"	48.24	27.11	47.38	20.82	23.89	42.62	20.44
Estimated retained earnings per share	1.28	1.08	2.19	0.91	0.68	2.06	-0.01
Net price/retained earnings	37x	25x	22x	23x	35x	21x	NM
Net debt ratio (%)*	1	17	37	33	24	30	38
Return on equity (%)*	10	12	12	13	13	13	9

*As of Sept. 30, 1994. NM: Not meaningful.

Source: Southeast Research Partners.

One way to view big oil stocks is to treat the dividend as a bond yield, then look at what's left as multiple of reinvested profits. By that measure, Royal Dutch trades at a rich 37 times retained earnings. But its 10% return on equity is relatively low.

rising dividends only by steadily increasing the payout ratio, which has tripled to 80% of net earnings. For a capital-intensive business like oil, this payout is probably too high.

"The return on investment is not high enough," concedes Cor Herkströter, Royal Dutch/Shell's top executive—chairman of its committee of managing directors. Herkströter, 57, is a numbers man: a stolid, mild-mannered accountant, Rotary member and tennis buff who succeeded Sir Peter Holmes in 1993.

The problem, as Herkströter sees it, is simple: Shell's costs are too high, and it has been investing in exploration and new facilities that are not yielding immediate returns.

The solution is not so easy. Unlike American-style chief executives, Herkströter cannot simply bark orders. Royal Dutch is not so much a company as a federation. Its operating units have great autonomy over budgets and personnel matters—and the head office is pretty much limited to decisions on long-range strategy. Nor does the company confront the kind of crisis that justifies extraordinary action: The business remains profitable and, after deducting cash, there is almost no debt. Nevertheless, to keep up with investor expectations for ever higher dividends, Herkströter is under pressure to raise profits. This can mean only one thing: Cut costs.

Firing people in Europe is even more expensive than firing people here. Severance charges can equal three years' pay. But by year-end analysts expect Herkströter to have cut \$1 billion out of the group's roughly \$12 billion in annual operating costs.

Among other things, this involves reorganizing some of the firm's 100 or so country-by-country operating companies into regional groupings. The Scandinavian units, for instance, have consolidated their gasoline marketing operations.

Herkströter's goal is to get a 12% return on equity—15% on older assets, less on investments just coming into operation. This is a fairly modest goal: It would require a reduction of just over 1% in Royal Dutch/Shell's \$86 billion in total raw materials and operating costs.

That 12% would increase operating earnings more than \$2 billion a year and add perhaps \$2 a share in net earnings. The board would be able to keep on increasing dividends without further stretching the payout ratio.

Shell Oil, the group's U.S. arm, is still a big part of the problem. Shell Oil, having lost money in 1991 and 1992, has already gone through a tough round of cost cuts. It now sells as much gasoline with four refineries as it used to sell with five and has slashed its payroll by 30%, to 22,000, since 1990. But Shell Oil is still saddled with 1980s investments in heavy oil that have not paid off; Shell Oil's 24% of the group's assets deliver only 13% of the profits. Look for further cuts at Shell Oil.

Herkströter is also shedding non-petroleum assets. In late 1993 the group sold its farm chemicals business. Last year it sold its \$2 billion (sales) Billiton metals unit, Herkströter's original employer. Alas, poor timing: Chemical and metals prices shot up right afterward. Shell barely broke even on the sale of its \$2 billion

in metals assets. Had it waited it might have done much better.

Nevertheless, more asset sales are likely, possibly the forest plantations in Chile and New Zealand and photovoltaic cell production in the Netherlands. "You should concentrate on the things you are good at," says Herkströter.

Next month Royal Dutch/Shell will put the bulk of its European petrochemicals operations into a new 50/50 joint venture with Italy's Montedison. The new Montedison should have sales approaching \$7 billion this year. By combining two of Europe's biggest polypropylene makers, Royal Dutch/Shell should be able to minimize new capital investment in that cyclical and only modestly profitable business.

Despite the cutting and trimming, the Shell group's basic strategy remains unchanged: It will not stint on the exploration needed to increase production volumes and replace the reserves it uses up each year. Royal Dutch/Shell is heavily into deepwater oil drilling and expensive LNG projects. It will spend \$5.5 billion on new exploration and production this year. \$1.5 billion of that in the U.S. alone. Exxon, with roughly similar revenues, is spending a third less.

When—and if—the spread of industrialization finally drives up the price of oil, all this exploration and development will pay off for this biggest of all oil companies. But for the near term this mighty company must cut costs to continue making investments in the future without interrupting those all-important dividend increases.

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Where were his fellow Republicans when the Democratic knives were into Newt Gingrich over that book deal?

Gutless Republicans

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

IT SO HAPPENS that my literary agents are the same people who represent House Speaker Newt Gingrich. Although Writers Representatives have not been able to get me the kind of money they got him, they are widely regarded as the best in the business. It is hardly surprising that these agents were able to get top dollar for someone as prominent as the Speaker of the House of Representatives. They got a \$75,000 advance for a classics professor who wrote a book on *Pericles*—and not *Pericles' sex life*, either.

The way these agents work with me is that I write the books and they handle the business end. Usually I have no idea what publishers they are taking the manuscript to, until some publisher makes an offer. This saves me the trouble of dealing with publishers, and some publishers may be equally grateful that it saves them the trouble of dealing with me.

According to Lynn Chu of Writers Representatives, Newt Gingrich was not even aware that HarperCollins was interested in his book when he met with Rupert Murdoch. Nor was there any reason why he should know that Rupert Murdoch owns HarperCollins. I didn't know it until this story hit the media, even though HarperCollins

and its subsidiary, Basic Books, have together published five of my books.

Why should Gingrich or any other author be expected to know such things? If he were going to negotiate his own book deals with publishers, there would be no point having an agent and paying a commission.

By the same token, if the head of an international corporate empire like Rupert Murdoch is going to be dealing directly with authors about their books, why would he be paying salaries to a small army of other people to do that?

Gingrich and Murdoch both meet with all kinds of people all the time. It is hardly surprising that they also met with each other. It is news only because of all the clever people who put two and two together and got seven.

This story stayed alive in part because the media demonizing of Gingrich since he became Speaker of the House has been unrelenting. The Democrats in the House have their knives out for him not only because he is the leader of the Republicans, but also because he destroyed former Speaker Jim Wright over a book deal.

The two deals, however, were as different as night and day. Jim Wright collected his speeches in Congress, had them printed by a vanity press, and sold huge numbers of them directly to lobbyists. Wright's "book" was transparently a way of circumventing the laws restricting how congressmen could get money from lobbyists.

Gingrich's book proposal was attractive to enough commercial publishers that HarperCollins was just one of those who bid in the millions for it. Gingrich is also just one of more than 20 current members of Congress to write books. He is also just one of a number of authors to receive advances exceeding a million dol-

lars. Anita Hill is another, for example.

The notion that there is something wrong with the Speaker of the House "capitalizing" on his public visibility ignores the fact that so are all the other congressmen who write books, not to mention Vice President Al Gore and former First Lady Barbara Bush. Mrs. Bush's book about her dog earned more money than George Bush made as President.

None of this is so esoteric that it could not be explained to the American people. But when Newt Gingrich had to do it alone, while numerous Democrats were demagoguing against him on C-SPAN and elsewhere, it did not have the same effect as if his Republican colleagues had fought back with him and exposed the hypocrisy, the double standards and the witch-hunt.

Instead, the Republicans sat on their hands and let the smears of the Democrats reign supreme in the media. Apparently "the appearance of impropriety" was their big worry. But if every smear means an appearance of impropriety, then we may as well erect a statue to Senator Joe McCarthy on Capitol Hill.

What impropriety is this the appearance of? That Gingrich took money from Murdoch to look after Murdoch's interests in Congress? If that was the reason for the multi-million dollar advance, why were other commercial publishers also bidding millions for the same book?

Even after the Speaker declined the

The media demonizing of Newt Gingrich has been unrelenting.

advance, the argument was made that he will still make millions when the book comes out. But, if so, then that kills the theory that Murdoch was offering a disguised bribe. If the book is really going to be worth million then it is no mystery why publishing houses were bidding millions for it.

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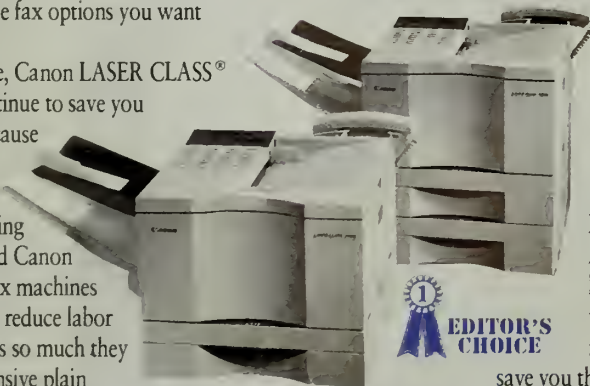
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Canon

Is book publishing going the way of the nickelodeon? No. The new technologies will expand the demand for what publishers do best.

The twain shall meet

By Paul Klebnikov

PRINTED BOOKS have survived a great many onslaughts from technology: radio, movies, TV. But will they survive that technological hybrid, part record, part movie, part print, called multimedia?

A single CD-ROM, a 5-inch computer disk, has a memory capacity equivalent to 250,000 pages of text. It can talk, show moving pictures and move back and forth among the different media for the best and most dramatic

presentation of stories and ideas. Can black symbols on a flat page compete?

Nathan Myhrvold, senior vice president in charge of advanced technology at Microsoft, predicts that personal computers will play an even larger part in people's private lives than in business. Says he: "Within a decade people will be using PCs more for information and entertainment than for data or word processing." Time being finite, this seems to imply that people will spend less time with books and magazines.

A lot of people are betting that Myhrvold is right. Last year Sony published its critically acclaimed CD-ROM of *The Haldeman Diaries*, and it plans up to 30 new titles this year. Despite its well-publicized technical problems with the CD-ROM version of *The Lion King*, Disney is betting heavily on CD-ROMs. "Multimedia is



Nathan Myhrvold, head of advanced technology at Microsoft
If people will be using PCs mostly for information and entertainment, who will provide the content?

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AGENTS FROM
TAKING CARE OF
THEIR CUSTOMERS.
DO YOU REALLY
THINK A LITTLE WIND
IS GOING TO?



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Book publishing

going to be a huge market for us," predicts Barton Boyd, president of Disney's consumer products division.

Microsoft has brought out three dozen titles so far and hopes to take a leading role in the multimedia market. Microsoft's most touted title up to now: *Encarta*, the CD-ROM version of the *Funk & Wagnalls New Encyclopedia* (FORBES, Feb. 28, 1994).

A cottage industry of specialized multimedia producers is springing up. Voyager Co., based in a loft in Manhattan, had revenues last year of \$12 million from CD-ROM versions of books like Art Spiegelman's *Maus* and Stephen Jay Gould's *On Evolution*. Says Voyager founder Robert Stein: "We think of ourselves as book publishers. We make books that happen to have motion pictures and sound."

Multimedia has already vanquished one book publishing segment, the \$700 million market for reference books like dictionaries and encyclopedias. Here sales of CD-ROMs now exceed those of printed versions.

Next target: the \$9 billion market for textbooks and professional books. Opines Nader Darchshori, chairman of Houghton Mifflin: "Within 20

years, most study materials will be computer-based, not printed."

Another key segment ripe for multimedia is the \$2 billion children's market. Random House has teamed up with Broderbund Software to publish multimedia books like *Ruff's Bone* and *Just Grandma and Me* for kids

Multimedia has conquered in reference books.

Next target: the \$9 billion textbook and \$2 billion children's book markets.

who may be getting bored with printed books. Children, often as young as 3 years old, are avid consumers of multimedia products. Is that important? These kids are tomorrow's consumers, and they are likely to take their taste for multimedia with them as they grow up.

Another example of multimedia book publishing: Houghton Mifflin is publishing a CD-ROM version of its

Peterson Guide to Birds, which may show photos of the birds, their nests, their eggs, videos of the birds in flight and a soundtrack of their songs.

All very impressive, but it neglects one central fact: Technology is a means, not an end. TV did not replace movies. Instead it created a vast new audience for them and created an insatiable demand for the kind of entertainment moviemakers do best.

So it will be for books: To the extent that computer-based leisure time activities become popular, they will require ideas and stories. And that's where books and magazines are irreplaceable.

Four decades into the TV era, book publishing is as healthy as it has ever been. Despite predictions of "the dumbing of America," Americans are buying more books than ever before. According to Veronis, Suhler & Associates, a New York-based investment bank, book sales grew at a compounded annual rate of 7% in 1988-93 and are expected to grow at that rate for the next five years. That's faster than the growth of broadcast TV, newspapers, magazines, radio or films.

Americans spent around \$25 bil

"THE CAR OF MY DREAMS IS FINALLY THE CAR"





Nathan Newcomb, president of Simon & Schuster

"We are the merchant bankers of the intellectual capital markets."

lion on books last year, versus \$1 billion on CD-ROMs. The rise of bookstore chains like Waldenbooks, Crown Books and Barnes & Noble has vastly expanded the market. Now even retailers like Musicland and Toys "R" Us are getting into the book business.

Whereas a top bestseller would have racked up sales of, say, 150,000 copies in the early 1960s, now sales of 1 million copies or more are not unusual. Robert James Waller's *The Bridges of Madison County* has sold 5.3 million copies and is the fastest-selling novel in publishing history.

The fact remains, however, that the average consumer spends 15 times as many hours watching TV as he does reading books. So why are book sales booming?

Alberto Vitale, chairman of Random House, has a persuasive explanation: "Communications have made people curious about a broader range of issues." Instead of putting books out of business, TV has stimulated the demand for them.

The smartest people in the business understand a basic truth: Books are probably the cheapest way to test an



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idea or a story. It costs maybe \$75,000 to publish a book. You can't make a TV series show for less than several million dollars. Think of book publishing in this way: as an efficient form of market testing for ideas and for stories. Considering the fact that book publishers bring out some 50,000 new titles a year, books—together with magazines—are society's dominant clearinghouse for ideas. Says Laurence Kirshbaum, Warner Books president: "Content comes in tiny chunks. You need a publisher to sift through it and pick out the gems."

It's this simple: A publisher can bring out a hundred new books that fail, but he still makes money if he has a good backlist and if he happens on at least two or three bestsellers. A moviemaker or TV producer would never survive if he had such a low rate of success.

Winston Groom's novel *Forrest Gump* sold about 10,000 copies when it was published by Delacorte Press in

1986, but after the roaring success of Paramount's film last year, the book (reprinted by Simon & Schuster's Pocket Books division) sold 1.6 million copies. Had Delacorte Press not been willing to bet on a relatively unknown author, there would have been no movie in the first place.

And then there are superstar authors like John Grisham, Michael Crichton and Stephen King. Says Kirshbaum: "In Hollywood the book is more important now than ever before." Adds Simon & Schuster President Jonathan Newcomb: "We are the merchant bankers of the intellectual capital markets."

Without merchant bankers and venture capitalists, there would be a lot fewer new businesses being started. If anything, the rise of multimedia may make publishers more willing to take chances on unknown and small-selling authors because technology will enlarge the potential markets and stimulate the demand for new ideas

and new stories.

There was a rumor that Viacom would sell Simon & Schuster to raise cash to pay down debt. It's a dumb rumor. Listen to Viacom President Frank Biondi: "Viacom is fundamentally software and copyright-driven company and Simon & Schuster has a lot of copyrights." By the same token, it is silly to think that Time Warner would sell or spin off its publishing operations.

It works both ways: As books b

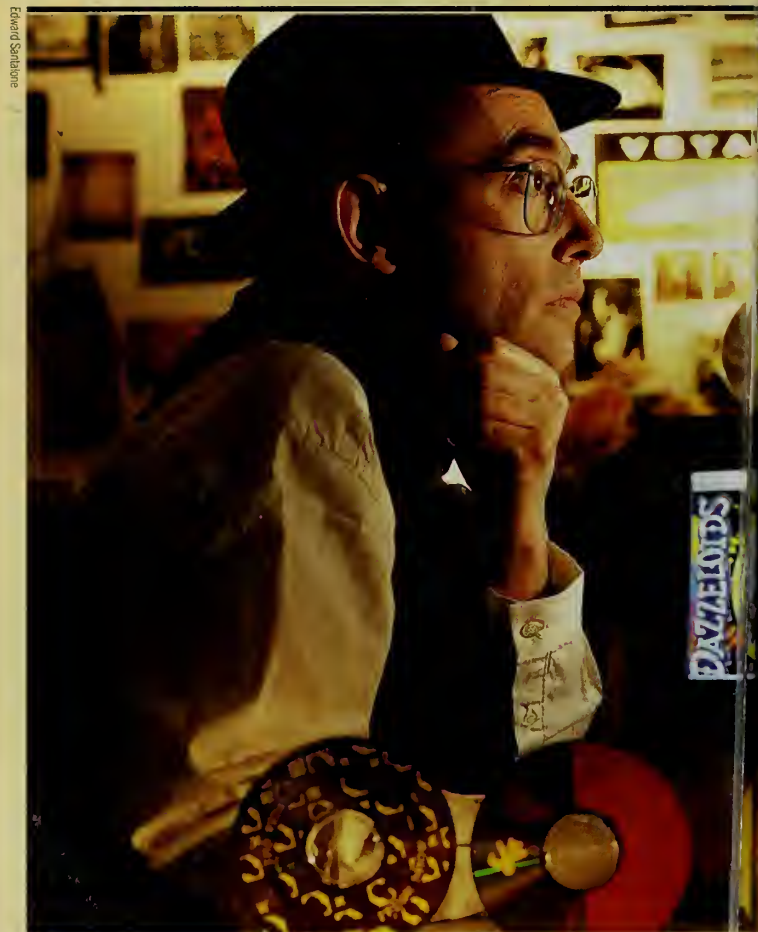
Despite predictions of "the dumbing of America," Americans are buying more books than ever before. Book sales are growing faster than broadcast TV, newspapers, magazines, radio or films.

What if Ashley Wilkes ran off with Scarlett?

WHILE IT SEEMS likely that publishing and multimedia will somehow merge down the line, there are limitations to the marriage. Some will vanish as technology improves. Others will not.

Can the novel be adapted to multimedia? A lot of people are skeptical. There are, of course, some theories about how to make multimedia novels attractive. One of these is using hypertext to give a reader some choice in the way the plot evolves. In *Gone With the Wind* the reader could choose to find out what happens if Ashley Wilkes decides to run off with Scarlett O'Hara. Or if, instead of declaring,

Voyager Co. founder Robert Stein
A cottage industry of specialized multimedia book publishers is springing up. Voyager, based in a Soho loft in Manhattan, is one of the pioneers.



me movies, so do movies and TV create books. The *Star Trek* TV series, produced by Paramount, is the basis for a long line of popular books; the series also gave birth to Simon & Schuster's bestselling CD-ROM (*Star Trek: The Next Generation Interactive Technical Manual*), which has sold 10,000 copies in three months. Next, Simon & Schuster will publish a series of juvenile books under Viacom's MTV and Nickelodeon labels.

An author himself of several novels, Olaf Olafsson, head of the electronic publishing division of Sony Corp. of America, emphasizes that, in the long run, the fancy technology of multimedia will become cheap and easily accessible. What will count is the content—and content is what book publishing is all about. "In a couple of years everybody will have the same access to the technology," Olafsson says. And then the profits will go to the people with the best raw material, the best stories, if you will.

Some publishers are already mastering the technology. Houghton Mifflin, whose one CD-ROM title last year was developed jointly with British publisher Dorling Kindersley, has recently hired software engineers to beef up its multimedia arm. Houghton Mifflin will be bringing out up to ten new CD-ROMs this year. They have not been subcontracted to a software developer but have been developed in-house.

Says Houghton's Darehshori: "We feel we can do a better job, because our authors know the needs of the marketplace and our editors are experts at developing ideas."

No surprise that a noisy fight is shaping up between the publishers and the artists and writers. Led by Random House, most publishers insist on keeping all the electronic rights to books for themselves. They argue that limiting themselves to a single technology, printing, would doom them. Authors, of course, have other

In a couple of years everybody will have access to the same multimedia technology. The profits will go to the people with the best raw material, the best stories. That's where book publishers come in.

ideas. They feel publishers should be content with profits from the books.

Book publishing dying? As movies and TV simply came together in a new synthesis of videotapes, filmed TV entertainment and movie houses, so will book publishing and multimedia meld together. And the prizes will go not to the technicians but to the folks who develop the stuff the technicians will carry.



"Frankly, my dear, I don't give a damn," Rhett Butler says, "Finally! What took you so long?"

The idea is amusing, but it is unlikely that many novels will ever go multimedia. You can't take your computer to the beach or cuddle up with it in bed. And who wants to read 1,000 pages from a screen anyway?

But adult fiction accounts for less than a quarter of all book sales.

Multimedia is better adapted to consumer nonfiction—books that are nonlinear, require indexes and lend themselves to sound or graphics. Cookbooks, for example. On the computer you can not only tailor the recipe to meet your needs but also watch video clips of the proper way to fold egg whites into a soufflé. How-to books? Imagine how useful it would be to read about building a deck

and have the computer show you video diagrams and plan it for you.

And the graphics and search potential of multimedia can add a lot to art books as well.

But even with how-to books, cost is a present drawback. Says Susan Griffin, marketing director at Voyager: "A CD-ROM title is really a beast to produce."

The typical Voyager title costs up to \$150,000 to produce. And that's cheap. Random House is mulling over whether to produce a CD-ROM version of *The Good Opera Guide*. The cost: about \$800,000. And that's not counting the large support staff required to answer the questions of befuddled CD-ROM buyers.

The bugs and disappointing features of most CD-ROM books are another problem. At the moment, PCs don't have the

memory or the processing speed to give you video images as high-quality and as easily accessible as those you get from your VCR, for instance.

"The biggest problem is that the PC is not content- or consumer-friendly," says Sony's Olaf Olafsson. "It was conceived as a calculator or typewriter, not as a publishing or entertainment platform."

In the not too distant future, CD-ROMs will probably be replaced by a more efficient data storage device or by a networked system downloading products onto your PC via cable or the airwaves.

But no matter how good the technology gets and no matter how much the costs come down, the demand for good material—software to run on the hardware—will be tremendous.

Garbage in is still garbage out. —P.K.

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Babies



"Babies are the BMWs of the Nineties," says a marketing man, explaining the astounding growth of the \$23 billion baubles-for-babies business.

Jude Albert

ns dolls

by Lisa Gubernick and Marla Matzer

GABRIELLA SAHLMAN dressed to the nines this past holiday season: a \$250 velvet dress, \$15 white stockings, \$55 patent leather flats. Her everyday wear was more casual: sweater, turtle-neck, leggings, all told about \$120 per outfit. She has six. Sahlman sleeps in a \$750 antiques wooden bed. Her ticker bureau ran to \$2,000 at a Madison Avenue boutique.

No, Gabriella is no yuppie, not yet. In Feb. 6 she turned 21 months.

The consumer society neglects no potential markets, and so infant wear and other items for infants, toddlers and preschoolers, once the domain of hand-me-downs, is now a \$23 billion business. While not entirely new, the idea of dressing little kids as if they were dolls has spawned a growth industry. The market is up by a third since 1987, according to the Port Washington, N.Y. NPD Group, which tracks consumer spending. That compares with 25% in women's wear.

"Babies are the BMWs of the Nineties," says Stanley Fridstein. That makes Fridstein happy. Sniffing the trend, he founded The Right Start catalog and retail operation, which specializes in children's products to make life easier for mom and dad.

Baby as status symbol. "It's 'Look at my child and see who this family is,'" explains James McNeal, a marketing professor at Texas A&M University who has been studying family spending habits for over 30 years. McNeal notes that as far back as the 1930s, parents tended to reach for

status by spending money on soap-flakes—to put clean clothes on the kids. It was okay if the fit was a bit loose and if a couple of generations of cousins had already used the stuff. It was enough that it was neat.

The baby business has demographics going for it as well as status. The U.S. population of kids under age 5 is at 23.6 million, up from 19.6 million in 1980. These babies are increasingly being born to dual-career couples who are waiting longer to have children and are thus able to spend more money on them once they arrive. The number of women who are 30 or older when their first child is born has more than quadrupled since 1970; the number of first children born to women over 40 more than doubled between 1984 and 1990, according to the National Center for Health Statistics.

And families have gotten smaller, making it easier to pamper the children, while working mom assuages some of her guilt by lavishing money on the child. "The girls' clothes just melt your heart. Since she's been born, I've hardly bought myself anything. I'd rather spend on her," says Texan Tracy Wolfe, a 34-year-old accountant and mother of 30-month-old Kelsey.

"I went nuts on layettes," says New Yorker Debra Kolitz, the mother of a 4-year-old and a 2-year-old. "Hundred-dollar blankets, \$60 playsuits. My budget the first year? Not counting furniture? Between \$5,000 and \$10,000," says Kolitz.

In many ways Kolitz speaks for her generation of mothers: "It sounds sort of shocking, but it's true. You could probably do with a quarter of it, but it's so bloody appealing. I had my

first child at 32. By the time they have that child, people like me are so caught up. These babies are so coveted that nothing is good enough."

Grandma and Grandpa can be even more indulgent. They've got the bucks and the time. According to the market research firm Packaged Facts, which last year completed a study of the infant, toddler and preschool market, 40% of all grandparents are over 65, the group with the highest per capita discretionary income.

"We love grandparents," says Elizabeth Franceschini, a vice president at Tiffany & Co., who reports that the specialty retailer's baby business has increased over 60% in the past three years. "I would say they buy easily 25% of all our baby items."

Who's benefiting from all this? Certainly the big discounters like \$765 million (sales) Kids "R" Us and \$175 million (sales) Baby Superstore, where most kids' clothes are still purchased. But the children-as-dolls phenomenon has spawned a whole raft of new businesses as well.

Ralph Lauren for babies? Why not. The shrewd Lauren just launched an infants and toddlers line (cotton polo shirt, \$22; cotton cardigan, \$62; floral linen dress, \$275; cashmere receiving blanket, \$350).

Fifty-seven-year-old Leslie Wexner's first child, a son, was born last year. No surprise that Limited Too, his chain of children's stores, has started selling such items as baby-size leggings and sweatshirts.

Next fall Talbots is adding the smallest set to Talbots Kids, the children's line it launched in 1989. Even L.L. Bean, once a bastion of solid but unpretentious clothing, added toddler-size snowsuits and parkas to its



A babyGap in Paramus, N.J.
The land of \$100 outfits for 10-month-olds.

catalogs last fall. Last month sportswear giant Nike, Inc. announced a licensing agreement with Cutler Sports Apparel to market a line of Nike infant and toddler athletic wear.

Merchants can't really create trends, but those that detect emerging trends can make a fortune. The Gap caught the baby-as-doll trend early and has ridden it for all it is worth. There are now over 320 babyGaps—departments within each GapKids—in the U.S., many of them adjacent to the grown-up stores. They peddle miniaturized versions of distressed denim jackets, pocket T shirts and leggings. In 1990 babyGap started as an extension of the four-year-old GapKids line and today dominates the specialty business for

babies and toddlers.

"Baby boomers were trained by the Gap to shop as couples, they go into the same dressing rooms, they wear many of the same clothes," says Alan Millstein, whose Fashion Network analyzes the retail business. "Now they go over to one department and buy that same stuff for their kids."

We're not talking about petty cash; babyGap is the land of \$100 outfits (jumper, matching jacket, booties and shirt) for 10-month-olds. The business is immensely profitable: What guilty baby boomer would stint on junior's clothes? "Gap proved that with a certain taste level, look was more important than price," says Millstein. "Anyone who is price-conscious knows that they have a great scam going in the kidswear area. It's a license to steal." GapKids is the fastest-growing nondiscount segment of the \$3.7 billion company, with an estimated 16.5% operating profit, versus 15% for the rest of the Gap line.

Children's wear was once a near monopoly of such department stores as Sears, Macy's and Saks. Managers believed that if they pulled parents in to shop for their kids, they would go home with stuff for themselves as well. No longer. By the mid-1980s the discounters had taken away their market share and kids' stuff was turning into a loss-leader for the department stores. "As a category, the department stores have been unable to make it as profitable as their women's apparel," says Richard Baum, retail analyst at Goldman, Sachs.

Today many department store chains have almost thrown in the



"By the time they have that child, people like me are so caught up," says one mom. "Nothing is good enough."



towel on kids' stuff: Saks, for example, has drastically reduced its children's offerings.

Swedish-born Gun Denhart had son, Christian. In 1983 she decided she wasn't happy with the children's stuff she found in the department stores. She smelled opportunity and began importing soft, cotton fabric from Sweden and manufacturing her own line, named Hanna Andersson for her grandmother—"Still Swedish but perfect for the American ear."

On her catalog Denhart glued swatches of the fabric that she used for her \$30 print romper. She did \$300,000 the first year, \$1.4 million the second. Last year the Portland, Ore.-based mostly catalog business pulled in nearly \$50 million in sales.

Just six years ago Nancy Pedic joined Burlingame, Calif.-based



New cotton goods at Hanna Anderson's development center in Oregon
Suddenly there's fashion for the under-5 set.

An Imaginarium in Chicago
No Barbies or Power Rangers.
"Parents want their children to excel, and they know they have to be involved in technology in order to do that."

ymboree Corp., then a 33-store chain of children's products. She is now chief executive of the entire \$189 million (fiscal 1994 revenues) operation, which has expanded to 209 stores. Of her success she says: "The market was either discount clothes or extremely pricey, froufrou clothes. There was no Liz Claiborne for kids—fashionable, well-designed products for the upper-middle market." Pedot went after it with brightly colored knit overalls (\$30, plus \$22 for the polo shirt to wear underneath) and, for girls, oversize tops and leggings (up to \$44 for the two).

Clothing is the biggest part of this \$23 billion market. Toys, however, are also important. Rick Mazursky, president of Chicago-based Vtech Industries, which makes electronic learning toys for kids, reports that the





Laine Kennedy

A Discovery Zone in Topeka, Kans. **Activities for kids, a coffee break for moms.**

company's fastest-growing market is for 6-month-olds to 2½-year-olds. "Nobody was offering anything from an electronic education standpoint for that age category," he says. "Parents want their children to excel, and they know they have to be involved in technology in order to do that."

Vtech got a jump on the competition with a \$25 product, Little Smart School Words. Six- to 24-month-olds can push brightly colored buttons on a blue and white plastic box to start learning their numbers and ABCs.

Vtech items are a big seller at the Imaginarium, a Walnut Creek, Calif.-based chain of 68 toy stores that generated some \$70 million in sales last year—without a single Power Ranger or Barbie. Imaginarium is as much playground as retail center. There are two entryways, a standard-size for grown-ups and a separate 48-inch-high doorway for kids.

On a recent afternoon at a Short Hills, N.J. mall, the Imaginarium was wall-to-wall with minishoppers. Allie Zuck, 21 months, pushes a \$14.95 doll-size stroller across the powder-blue carpet. Is her mother, Lori, going to buy it for her? "It depends how I can get her out of the store," she says. "What it takes so she won't create a scene." Twenty minutes later Allie leaves, stroller in tow.

Discovery Zone, or D.Z. as it's known to the smaller set, is one of those things parents didn't know they

needed until one turned up at the mall. For a \$5.99-a-head entrance fee—in most markets—kids get a midway, without truly scary rides. The place is filled with bright plastic chutes and ladders, spaces with hundreds of plastic balls that kids can throw and jump on, and ropewalks, where kids can make like Spiderman.

On a recent rainy morning at a D.Z. on New York's Long Island, 22-month-old Conor Golden was clad in a babyGap red turtleneck and matching plaid pants. William Matalene, 27 months old, was clad in babyGap

overalls and white oxford shirt. They mingled with some three dozen kids bobbing among plastic balls in the Minizone (40 inches and under) while their mothers caught a cup of coffee. "It's a safe, clean place for moms to burn energy," says William's mom, Cheryl, "where I can be with another mother, have a quiet cup of coffee, not have to run around."

Most 3-year-olds can't read, but they're still important to Barnes & Noble. Each store holds twice-weekly readings, more than half geared to kids 5 and under. Costumed Macelines and Cats in the Hat show up to read their stories to audiences seated on kid-size chairs and benches.

Let's not forget food. Why shouldn't kids have gourmet stuff too? The overall baby food market is flat, but sales of "premium category" jarred peas and carrots are up nearly 13%. Never mind that they cost an average 62 cents a jar, versus 48 cents for plain-old Gerbers. Says Jay Shookmaker, chief executive of Earth's Best Inc., the biggest independent producer of organic baby foods: "Even if they don't always eat healthy themselves they want to think that their kids do."

Silly? Frivolous? Wasteful? Maybe, but parents just can't seem to stop. Shari Fox, a 30-year-old Florida mother of two, says it all: "My kids have just tons of stuff, [but] if they want something I just don't know how to say no."



Jade Alben

"It's 'Look at my child and see who this family is,'"
says an expert on family
spending habits.



"You're Only 200 Once. Bottoms Up!"

by George Plimpton

It's going to be quite a year for one of the giants of the liquor industry — Jim Beam Brands Co. — which this year is celebrating the anniversary of its best-selling Jim Beam bourbon.

Now this because I was invited down to Kentucky to take a tour of the Jim Beam distillery in Clermont. The party that came along with the invitation included a number of special plans for the celebration, along with some fascinating family history. It turns out Jim Beam is one of the oldest continuously operated distilleries in the nation. After the tour, I had lunch with a sixth-generation Booker Noe, who is the company's master distiller emeritus.

Jim Beam Brands Co. is an international organization which — adhering to the quality and detail that went into the production of Jim Beam bourbon — has grown. Since 1987, the company has acquired a list of domestic and international brands that to date includes gin, gin, vodka, rum, brandy, cordons, and liqueurs, and tequila. This list of brand names as varied as Abernethy Cordials, Windsor Canadian Whisky, Ronrico Rum, and the notable No. 1's Bourbon. Today the company is the largest U.S.-owned spirits company,

backed by the strength of its parent company, American Brands, Inc. Truly a giant organization!

Though the company is an international concern, it has never forgotten its roots, especially this year as the Jim Beam bicentennial is celebrated.

The Jim Beam distillery where the famous bourbon is made is about a twenty minute drive from the Louisville airport — a cluster of buildings set back from the highway, a thick plume of steam rising from one of them. The most distinctive of the structures are called "rack houses" — tall (often seven stories high), rectangular warehouses, usually painted white — in which I was told the bourbon in its barrels is stored during the aging process.

This distillery is about eight miles from where Jacob Beam made his first barrel of whiskey in 1795 — on Hardin's Creek, a spot Jacob found after following Daniel Boone's trail through the Cumberland Gap in 1788. The creek boasted clear-cold iron-free limestone water loaded with calcium, the "sweet water" that is considered unique to the bluegrass country of Kentucky. "The limestone in bourbon," one authority has pointed out, "is what makes you wake up the next morning feeling like a gentleman."





In the company office I was introduced to my guide, Steve Benjamin, who would take us through the distillery and educate me about bourbon, for which I was thankful because my knowledge is skimpy. In fact, for years I had assumed that the name "bourbon" had something to do with the royal family of France, but of course it doesn't at all. Bourbon gets its name from Bourbon County, though in fact bourbon is no longer made there. It is one of the nine counties organized by the Virginia legislature before Kentucky became a state in 1792.

Those first years of statehood for Kentucky were also the first years of the Beam family business: David Beam helped his father Jacob from the beginning; and David M. Beam, Jacob's grandson, born in 1833, joined the business as well. The company's current name was derived after the appearance of the next generation, James Beauregard Beam.

He kept on making bourbon right up until Prohibition, when the government said, "You're out of business, son — *you're out of business.*" He told his wife, "I'm not going to the penitentiary over this whiskey. I'm



getting rid of this-dag gone stuff." Which he did. He sold the plant.

He was fifty-five when

Prohibition came in, and nearly seventy when the law was repealed.

He applied for a license to operate a still again, and got it. To start all over again was an

James Beauregard Beam, the third-generation Beam for whom the company is named.

admirable indication of his stamina. He was doing it for his son, Jeremiah, and to keep the Beam family tradition alive.

"You'll do just about anything for your own children."

Some facts I learned during my tour of the plant: Scottish immigrants to this country intro-

duced whiskey drinking and inevitably its manufacture. But the first settlers in Kentucky in the late 1700s, among them James Beam, found that it was difficult to grow rye among the stumps of the land they'd cleared and that corn, the basic ingredient of bourbon, was a preferable crop with a yield three or four times that of wheat. But whiskey based entirely on corn was too sweet for most tastes, so the distillers experimented with combinations of grains and what are called the "small grains" — lesser proportions of other grains like wheat, rye, and barley. White oaks thronged the hills and were perfect for making barrels.

Bourbon is relatively colorless when it goes into a barrel. Hold it in a glass against the sun it actually has a soft, milky quality, hence its name "moonshine." It was given a taste of it, just as it reminded me somewhat of

taste of grappa, the strong Italian apertif. In the old days, this is what the distillers gave the purchasers — twenty cents a gallon in the 1700s. When a tender was asked for whiskey, what the customer got was a primitive, pale bourbon, a drink that went under various names according to its genesis — the more questionable, the more descriptive: skull varnish, snake water, red-eye, juice, dynamite, tarantula juice.

Two factors then emerged which produced the bourbon we know today. One was one of them. The other was the effect that the charred wood of the barrels had on its contents during aging. The Irish and the Scotch are unsure about the origin of charring; it may simply have been a

In 200 years, the bottle has changed. The family and the secret recipe remain the same.





Booker Noe, Jim Beam's master distiller emeritus and grandson of Jim Beam, in front of the rack houses at the Clermont distillery.

when they were emptied, I was told that they are sold to various liquor concerns in different countries where they are scoured and reused. How odd to think that the tequila being served at a cafe table in Acapulco has spent some time in a Jim Beam bourbon cask!

As Steve, my guide,

took me through the interior of the distillery I was reminded somewhat of the innards of a very large and somewhat

antique ocean liner — steel-grated catwalks over which we clumped past vast

tanks which serve as the cookers, fermenters, stills in which the process of the making

of bourbon occurs . . . everywhere gauges, dials, cranks, valves, conveyer belts, the hum of machinery.

We left the distillery and took a tour of one of the rack houses — clambering up a narrow staircase through a network of heavy wood beams — on each floor a long center aisle with a little dust-stained window at the far end, the barrels in their racks, nineteen deep, off to each side . . . 20,000 of them in the rack house resting there in the cobwebby gloom. The entire facility, 55 rack houses, has a capacity of 2,000,000 barrels. In the summer, the heat in the top levels of the rack house goes up ferociously, as much as 125 degrees on a hot August day. This ages and flavors the bourbon more quickly

Charring the oak barrels is part of what gives Jim Beam Bourbon its distinctive color and flavor.

than the contents of the casks on the lower levels where the temperature can be 50 degrees cooler. It is the responsibility of the master distiller to select the barrels from different levels to marry the contents and create



One intriguing legend is that an early distiller used hickory whiskey in barrels that were used to carry fish, and after charring the barrels to get rid of the fish smell, he accidentally discovered that the contents had not only gained an attractive amber color but also a rich flavor. He had not realized how important the char was to the bourbon. By law the barrels must be brand new and cannot be used for a second time. Made to this day of white oak, they have been individually held over open flames and charred on the inside. Over the years, as the liquid goes in and out of the pores of the charred wood, impurities are modified or eliminated; the wood mellows and gains its distinctive and various flavors. When I asked what happened to the barrels



the signature Jim Beam flavor.

Toward the end of our tour we saw someone at what I would call work — a man wielding a hammer and banging in the large corks, or bungs, into the bung hole at the top of each barrel as it came down the assembly line.

Since he was the only person I had seen actively doing something, it crossed my mind as sometime participatory journalist (last-string quarterback for the Detroit Lions, goalie for the Boston Bruins, etc.) to ask him if I could take over for the next few minutes, bang in a few bungs with his wooden mallet, just to experience a distillery job. But it occurred to me if I did so, and did something wrong, let the mallet fly from my fingers, for example, that the whole assembly process would

Booker Noe
blends the contents of
different barrels to
create the signature
Jim Beam flavor.

shudder to a halt.
So I resisted the
temptation.

We left for
lunch. With his
wife, Annis, Booker



Noe occupies the same house in Bardstown (about a ten minute drive from the distillery) in which Jim Beam once lived. The compound is large enough to have served as a private girls' school and then as a military academy for boys. There is a smoke house out back — hams hanging on strings from the ceiling. Booker led us in to lunch — a gargantuan outlay which included soup, salad, fried chicken, ham, kale, corn pudding, eggs, grits, biscuits, rolls, and a biscuit pudding laced with a bourbon-based ingredient of Booker's own making. He is famous for his hospitality. He once invited a motorcycle club of police officers to his home for drinks. "Hell-fire," he said, "Two hundred officers turned up at the house." Booker can use up four or five seconds drawing out a word like "hell-fire," as in, "Why, hay-all-fiah, we had 200 motorcycles out there on the lawn."

Perhaps mellowed by his own hospitality, Booker sent his wife to fetch a copy of

Six Generations of Distillers



Jacob Beam



David Beam



David M. Beam



Jim Beam



J. Jeremiah Beam



Booker Noe

*Two-hundred years
of American History.
One family.
One formula.*

the Jim Beam secret formula from another room. "Here it is. The original formula used since Jacob Beam's time 200 years ago. It's what makes the finest known whiskey — clean, pure, and potable."

I craned to see what was on the paper, and caught sight of one heading "Spontaneous Yeast." Booker winked and said, "Now it wouldn't be a secret if you took a look at it." He did admit that the secret was how to get the yeast going. "When it smells like fresh horse manure," he said, "it's ripe."

He was happy to share one other secret, too. "The says that whiskey to be aged for two years before you call it bourbon. Jim Beam we age a minimum of four years. Its the tin

the whiskey takes getting to know the inside of the barrel that makes it a bourbon — there's just no substitute."

"We make more bourbon whiskey week than James Beauregard made in lifetime." Booker smiled happily. "Quality though."

business people babble about free markets, then petition Washington for special privileges.

Having it both ways

BY JAMES M. BUCHANAN & DWIGHT R. LEE



James M. Buchanan is the 1986 Nobel Prize winner for economics. Dwight R. Lee is the Ramsey Professor of Economics at the University of Georgia, Athens.

BUSINESS LEADERS claim to be strong supporters of free enterprise. But they seldom preach the virtues of free enterprise more enthusiastically than when they are petitioning government for privileges and protections that undermine those virtues. Secretary of Labor Robert Reich had a point recently when he reminded the business community that it receives plenty of government subsidies.

Not all the people who point this out are antibusiness. Milton Friedman has argued that "existing businesses generally prefer to keep out competitors. . . . That is why the business community, despite its rhetoric, is so often been a major enemy of truly free enterprise." And George Sigler observed that "much of the problems of capitalism come from businessmen, from their own visits to Washington, not from having Ralph Nader run it over the rocks."

Yet one can't entirely blame these seemingly two-faced business people. They are simply acting rationally. One preaches one thing while practicing another always reflect insincerity? For example, should we conclude that an advocate of higher taxes is hypocritical because she

doesn't unilaterally pay more taxes than legally required? Does the leader of a country who argues for arms reductions lack sincerity because he maintains his own country's armaments? Or a person who speaks out in favor of reducing auto emissions while doing nothing to reduce his own below that required? Surely not: They simply see no good reason for them to give up an advantage unless everyone gives it up.

The fact is that people often sincerely support a general policy while realizing it would be foolish, even self-destructive, to unilaterally act in accordance with that policy. Thus business leaders can be sincere in advocating free enterprise and less government while seeking to gain government advantages for their industries.

So as business people see it, the choice is not between a true free-enterprise economy and one riddled with government protections, but between seeking or not seeking protections in an economy that will remain riddled with protections either way. The industry that drops out of the game of political influence would still suffer from tax cost and efficiency loss as before, while sacrificing the government benefits it formerly received. Indeed, it would be irresponsible for business leaders to behave in accordance with the rules of a genuine free-enterprise economy, no matter how sincerely they prefer such an economy, given the fiduciary responsibilities they have to their shareholders.

How then do you persuade business people that demanding special privileges is not necessarily in their best interests when it seems to clearly to be in their best interests? By showing them that even those businesses most successful at obtaining government protections would be better off

in an economy where such protections are impossible. By convincing them that there is no such thing as a free government advantage. By showing that they pay high prices for these advantages both collectively and individually.

Making political contributions, maintaining a constant presence in Washington and exercising care not to offend bureaucratic agencies with arbitrary power are just some of the costs of being an effective player in the political arena. Also, when one group can obtain government privileges, others can do the same. Soon, through legislative logrolling, there is a large and expanding number of groups receiving privileges and protections.

So the benefits businesses receive from government protections are reduced by two considerations: first, by the amount of time and money spent on political influence; second, by the

People are becoming weary of having to pay tribute to politicians and bureaucrats for the privilege of victimizing each other.

cost suffered in the form of higher taxes and a less efficient economy caused by the benefits other people wring from the politicians. The situation can quickly become a losing proposition for everyone, including those who seem to be winning.

Even those associated with the most protected industries can soon discover that they would be better off giving up their political advantages and accepting the discipline of free enterprise, if others did the same.

As much as anything else, last November's election reflected an increasing awareness of this fact. People are becoming weary of having to pay tribute to politicians and bureaucrats for the privilege of victimizing each other. When government becomes, as indeed it has, in the words of Frédéric Bastiat, "that great fictitious entity by which everyone seeks to live at the expense of everyone else," everyone can benefit from calling a halt to the plunder. ■

Gerald Levin has a blueprint for Time Warner in the electronic age. Will the people with the stock and the money give him time to try it?

The testing of Gerald Levin

By Robert Lenzner and Esther Wachs Book

GERALD LEVIN, a spare, slightly built man of 55, presides over the electronic age's most valuable collection of entertainment and informational material. As a portfolio of businesses, Time Warner, of which he has been for two years chairman and chief executive, is almost priceless. It owns one of the best movie studios in the world, one of the world's biggest record companies and the biggest publisher of magazines in the U.S. In an era in which entertainment is conveyed by T shirts and theme parks as well as by print, films and broadcasting, Time Warner has the further advantage of owning many of the means for transmitting the stories and tunes and symbols it owns.

As a distributor as well as a manufacturer of entertainment, Time Warner owns one of the two largest cable systems in the U.S., plus Home Box Office plus theme parks plus retail stores. It has launched its own TV network. It owns a 19.4% stake in Turner Broadcasting and its CNN. In size and scope Time Warner is larger than the communications empires of Rupert Murdoch, Sumner Redstone and John Malone.

But in a business dominated by bigger-than-life entrepreneurs, Jerry Levin appears almost colorless, an intellectual in a world of flamboyant individuals, a hired manager amidst proprietors and founders. A graduate of University of Pennsylvania Law School, Levin practiced law before joining Time Inc.'s Home Box Office in 1972, when the pay cable operation was in its infancy.

Inevitably, outsiders compare Levin with his two famous predecessors, publishing genius Henry R. Luce and super dealmaker Steven Ross. These comparisons make Levin seethe, but he is accustomed to them. "I just don't buy that the insubstantial glare of charisma reflects reality," he says. He admires Luce, but his praise for Ross, the high-liver and pal of celebrities, is sparing. "Steve," Levin says, choosing his words carefully, "was smart enough to put some of the best assets together. But he wasn't a creator like Luce was."

Is Levin a creator? He helped create HBO by putting a satellite in the sky to carry movies to homes. He understands the possibilities of delivering movies, books, records and an array of information by broadcast, cable,

telephone or computer.

Levin was the chief strategist of the Time Warner merger. But Wall Street and major Time Warner shareholders are watching him with mounting impatience. Edgar Bronfman Jr.'s Seagram Co. owns 14.9% of the stock; Paul Desmarais and his Montreal-based Power Corp. of Canada own slightly under 1%; Courtney Ross, Steve Ross' widow, owns just over 2%, if she exercises her options. Levin, by comparison, owns, if he exercises his options, more than half a percent.

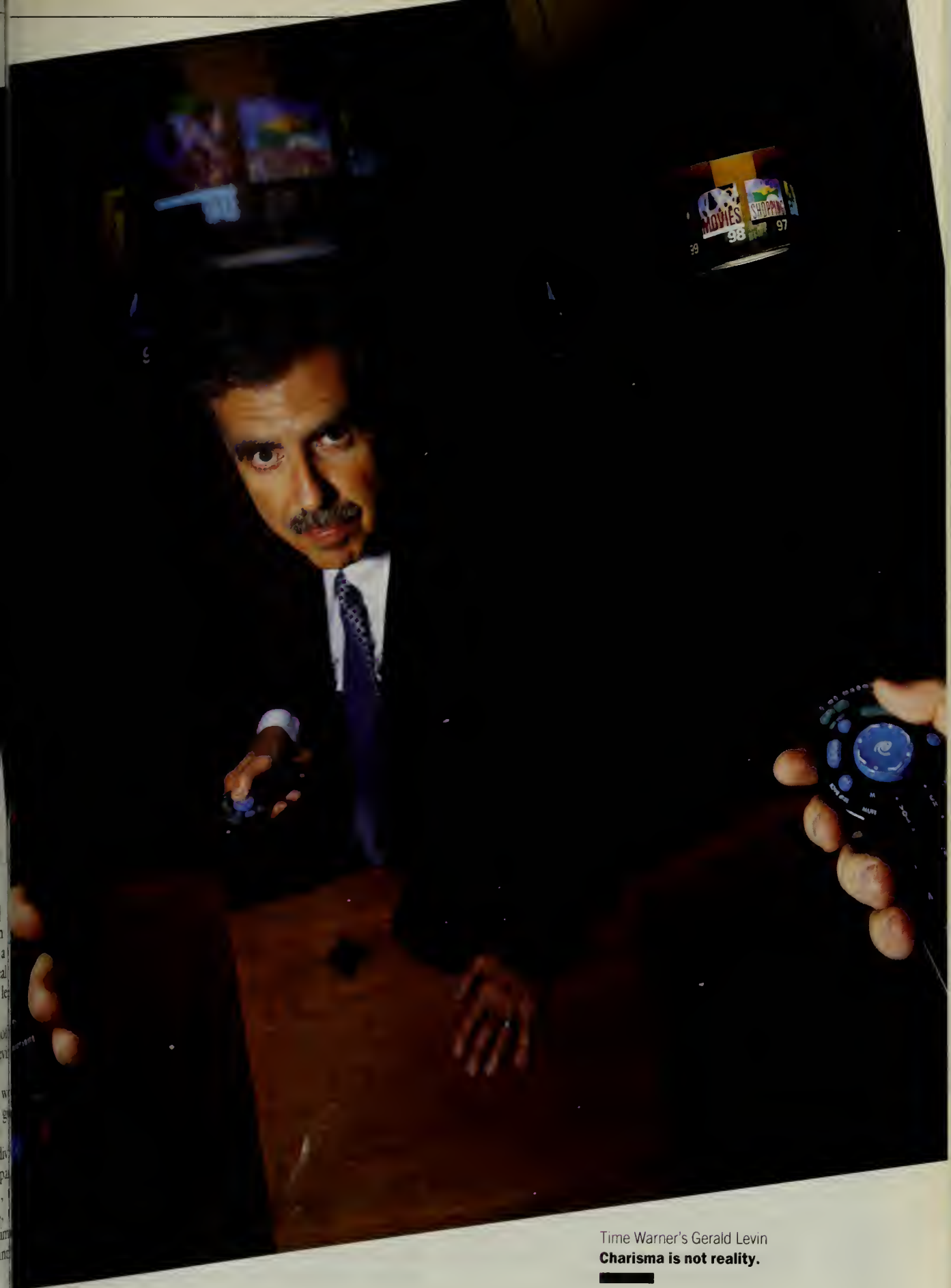
Wall Street, too, has its doubts about Levin. The stock market currently values Time Warner's common equity at about \$15 billion. Disney's market cap is \$28 billion, Viacom's nearly \$17 billion. Even allowing for Time Warner's heavy debt burden, the market puts a lower multiple on a dollar of Time Warner revenues than on a dollar of its rivals' revenues.

"Time Warner is infuriatingly appealing," says Dennis Leibowitz, senior vice president at Donaldson, Lufkin & Jenrette. "Appealing because [it] possesses such a unique complement of distribution and content. . . . Infuriating because it does not offer a pat, provable investment thesis and because its real value will not be demonstrated conclusively for at least several years."

As the real world turns, "several years" is the blink of an eye; but to Wall Street it is an eternity. That's Levin's problem.

What's his strategy? He doesn't articulate it terribly well and that's part of the problem. His explanation goes something like this:

The media, Wall Street and many investors like to divide the entertainment/information world into two neat packages: hardware and software. Software is the content, stories, the news, the pictures, the personalities, tunes—the products of human imagination. In this simple view, hardware is the electronics, the wires, the print presses, the networks that carry the content.



Time Warner's Gerald Levin
Charisma is not reality.

Wall Street currently favors the content providers. Content providing is not capital intensive and is not subject to technological obsolescence. Hardware is capital intensive and quickly outmoded. Telephone and printing equipment and movie projectors from the 1930s became scrap long ago; *Gone With The Wind*, now the property of Turner Broadcasting, is worth dozens of times what it cost nearly 60 years ago. So are the Disney movies and characters.

The value of software is easy to understand. Who would not like to own the copyright on *Hamlet*? Sumner Redstone likes to say that his Viacom is a software company (FORBES, Oct. 17, 1994). Wall Street nods approval and marks up Viacom stock.

False dichotomy, Levin says. "I hate the word hardware," he says. "We are not a hardware company. We create content and we are a distribution company. We distribute movies, music, books and news on demand. Cable is not hardware; it is another form of publishing. It is marketing. It is the way we get our product into homes."

Is Levin playing semantic games? No, he believes what he says—that the means of getting the story to the listeners, viewers and buyers adds value to the story, and Time Warner, because it commands so many different forms of distribution, has a substantial lead.

"Who makes the money in the movie business?" he asks rhetorically, and answers: "The profit is in the distribution. That's why distributors are willing to help finance films made by others; they need product to put through their distribution system."

Time Warner's cables are distribution. Time Warner's film company and record companies distribute movies and records produced by individual performers and creative people. Theme parks distribute entertainment concepts and symbols to the ultimate consumer in a different form. So does Time Warner's fast-growing chain of retail stores.

Retailing? Yes, retailing is just another way to distribute the entertainment products, in Levin's view. The sale of movie- and cartoon-related paraphernalia is hugely profitable. That's why there are already 111 Warner Bros. Studio Stores, and up to 30 more will open this year; and there is a catalog. "Our Warner Bros. Studio Store on [New York's] Fifth Avenue is probably the largest-grossing specialty store in America," he boasts.

"There's these myriad acts of creation, and then there are several lines of distribution, both electronic and hard copy. And the two are interrelated. . . . You can't disengage the distribution from the creation," says Levin. It's not hardware versus software, he maintains.



Henry R. Luce, founder of Time Inc.

Levin wants to overhaul Luce's creation.

matter of fact, it is easier to deliver a telephone signal than it is to deliver a movie. The world just hasn't awakened to that.

"I'd like a go at a \$100 billion telephone business and let the telephone companies have a go at the \$20 billion cable business. The odds are in our favor. I'm many years ahead of getting into that business, before they can deliver video."

Already, Time Warner is receiving revenues from long distance companies for connecting calls and carrying data for private businesses on Time Warner's upgraded cable

"I'd like a go at a \$100 billion telephone business and let the phone companies have a go at the \$20 billion cable business."

systems. It is already doing this in 14 locations, including Cincinnati, Houston and San Diego. In 1995 another 15 cities will be added, among them Indianapolis and Milwaukee. "I just put a little more capital in," says Levin, "and I get this whole new revenue stream from telephony."

Levin makes a convincing case, but for Wall Street numbers speak louder than words. Time Warner shares in December were around 32. Now they are at 39, still down from a peak of 46½ in 1993, before the FCC ordered a 1% cut in cable fees. Recently institutions sold more stock than they bought. Edgar Bronfman Jr.'s Seagram Co. did not have a profit yet on its investment. Courtney Ross worried about Time Warner's direction. Her lawyer, E. Fields, says: "Mrs. Ross has an enormous stake in Time Warner and has naturally questioned money management. Whether she is doing the appropriate thing in holding

Okay, but telephones? Levin plans on using his cable systems to offer competitive telephone services. "Someday 15% of New Yorkers will be paying their phone bills to Time Warner," says Levin. "And their cable bills could be charged for movies, electronic games and news on demand, just to name a few of the services Time Warner plans to offer."

Levin hopes the telephone business can add several billion dollars in revenues over the next five to ten years. "I'm not betting the company on telephone," he says. "But while I'm delivering movies, I can also be delivering a telephone conversation. As

Se has decided to hold on
it but continues to
questions and be
concerned."

N Bronfman won't talk for
record, but he is friend-
with Hollywood agent
Michael Ovitz, a man with
overing ambitions, and
with Barry Diller, the ex-
Fox studio boss who made
a unsuccessful bid for Par-
amount and still lusts for a
studio of his own. Bronf-
man is currently supportive
of Levin, but the betting is
that Bronfman hasn't given
Levin an undated check.

Meanwhile, Levin has
done messy deals to
tighten out. In their
ate to raise money to re-
the debt, Steve Ross and
Levin made deals to sell a

5% interest in HBO, Warner Bros.' movie studio and
the Warner cable systems to U S West, an Englewood,
lo.-based telephone company, and two Japanese com-
panies, Toshiba and Itochu. This raised \$3.5 billion but
numbered some of the company's most valuable assets.
Levin wants to overhaul the byzantine Time Warner
entertainment partnership.

He wants U S West and perhaps other outside investors
to take instead a half interest in Time Warner's cable/tele-
phone systems. This arrangement would slash Time War-
ner's debt by taking off its books the most capital-intensive
part of the business. With a cleaner
balance sheet, Time Warner stock
might move even higher than it has
recently.

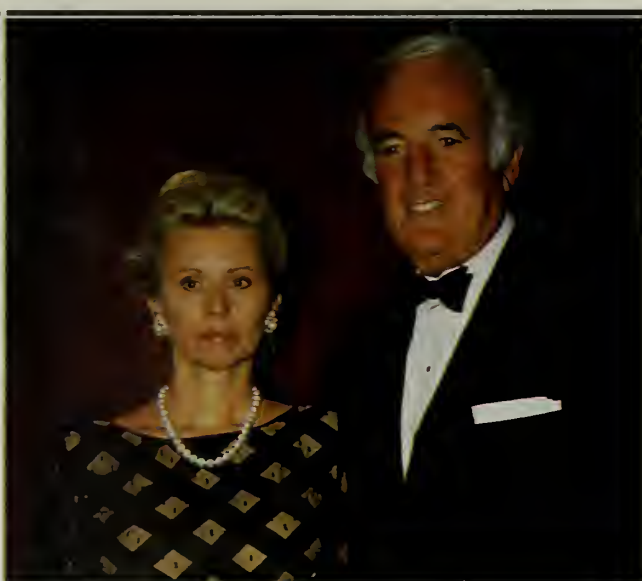
For Levin this involves eating seri-
ous crow. In the 1993 Time Warner
annual report, he stated that "Be-
cause we substantially accomplished
restructuring objectives in 1993,
more changes would not be of the
same magnitude." But that was be-
cause his big shareholders started
howling.

The problem is that the major out-
side partner, U S West, is not dancing
in joy at the proposed change.
They've made no commitments, or
they had specific talks about where we
want to be on the terms of the deal,"
Thomas Pardun, president of U S
West Multimedia Group, the subsid-
iary where the joint venture with
Time Warner is managed.

But don't underestimate Jerry
Levin.

When Levin took over on Ross'

R. Mennar/Sygma



Courtney Ross and the late Steve Ross
Concerned about the family jewels.

■■■■■

battle of the board is: "It was time to get rid of some old
blood and replace it with new blood."

The stripped-down board was then expanded with four
Levin supporters: Carla Hills, former U.S. Trade Repre-
sentative; Francis T. Vincent Jr., former Baseball Commis-
sioner; Reuben Mark, chairman of Colgate-Palmolive;
and Michael Miles, former chairman of Philip Morris.
They seem solidly behind Levin. The board now numbers
15. Edgar Bronfman Jr. might get a seat someday. Of him,
Levin says: "I'm developing trust with Bronfman."

Levin has struggled with some success to harness the
huge egos that infest the company.
This struggle led to the departure last
year of Mo Ostin, longtime boss of
Warner Bros. Records. What hap-
pened to Ostin? Levin says simply that
he decided Warner needed "a new
generation of leaders."

The Ostin ouster did not endear
Levin to the tight little cabal that runs
the record business. "This has desta-
bilized the greatest record company
in the business," says billionaire Da-
vid Geffen. "The loss was sheer mad-
ness. I guarantee you it will show up in
the bottom line eventually."

Oded (Ed) Aboodi, the head of
Alpine Capital, who dominated Time
Warner's dealmaking and who earned
multimillion-dollar annual fees, will
no longer be Levin's chief financial
adviser. To insure loyalty and to com-
pensate them properly for their record
performances, all the division heads
were given new contracts by Levin—
including Michael Fuchs, chairman of
Home Box Office; Robert Daly and

M. Delluc/REASABA



Edgar Bronfman Jr.
Will he get Seagram a board seat?

■■■■■

Terry Semel, co-chief executives of Warner Bros.; Don Logan, chief executive of Time Inc.; and Robert Morgado, chairman of Warner Music—and they seem for now on Levin's side.

Meanwhile, Levin has been reinforcing his position by bringing in high-profile allies. Richard Parsons, a politically savvy New York banker, is now Time Warner president, in charge of financial and legal matters.

Parsons' job, in his own words, is to be "Jerry's junior partner, a sounding board for another perspective." Another way of describing his assignment would be this: to bring some outside air into a rather ingrown company. Among other things, Parsons will fill many of Aboodi's old functions.

Norman Pearlstine, Time Warner's new editor-in-chief, was brought in to serve a similar role: as a Levin ally and for an outsider's perspective. Pearlstine and Levin are fellow graduates of Haverford College, outside Philadelphia. After serving as managing editor of the *Wall Street Journal*, Pearlstine, a onetime FORBES staffer, ran a limited partnership that looked for investments in media companies.

It is probable that Levin will have good news to report on Time Warner's progress in the telephone business. He is also certain to unload some underperforming assets to pay down debt. Which assets? Time Warner's minority interest in Turner Broadcasting is a candidate. Those shares, which are doing nothing for Time Warner's earnings, would very likely bring \$1 billion or more, which could be used to pay down high-coupon debt. Levin is known to be as fed up with Ted Turner's rambunctiousness as Turner is with what he regards as Time Warner's meddling.

The stumbling block here is price. Levin would like to get a substantial premium over Turner's recent market price of 17¼ a share. But there aren't a lot of people who will pay a premium to be Ted Turner's junior partner.

If he can undo the deal with U S West, Toshiba and Itochu, Levin will be able to put all the cable and telephone operations in a new, separate company. Ideally, Time Warner would own only 50%, so the debt assigned to these operations would not be consolidated with the Time Warner balance sheet.



Richard Parsons, Time Warner president

One of Levin's newly hired high-profile allies.

"Mrs. Ross has an enormous stake in Time Warner. She has decided to hold on to it but continues to ask questions and be concerned."

programming on two sides, be able to handle several languages, is adaptable for high-definition TV as well regular, and will protect content from copying.

Warner Music made a fortune when compact discs came in; it was able to sell its recording library to consumers over again. So it was with videocassettes and movies; the videocassettes created a brand-new stream of revenues from films. The digital videodisks are cheaper to make than videocassettes, play much longer and can be programmed easily for different markets. Levin says it will even be possible to create an adult version and a family version of the same movie, using the disks.

This could have a tremendous payoff for all the movie companies. Time Warner will be able to reissue the video rights to the entire MGM and United Artists film libraries.

With luck, Levin may pull off a coup by enticing Steven Spielberg, David Geffen and Jeffrey Katzenberg to ally their new entertainment company with Time Warner. Right now the much publicized trio is with MCA, but MCA is shaky what with its executives feuding with the owner, Japan's Matsushita. "If Sidney Sheinberg breaks with Matsushita, I'm confident they will join us," says Warner Bros.' Robert D.

Can Levin handle so many fragile egos? So far he managed fairly well. "If we're going to have stars, sometimes there are collisions," he says. "That's okay sometimes they butt heads, that's okay. I just want maximum performances from our businesses."

Levin is counting on some help from Washington next year, from the new Republican majority in Congress.

This is just balance sheet shuffling, of course, but it would make Time Warner more transparent. That is to say, its remaining assets would be judged as a pure entertainment/information company while the cable/telephone holdings would be separately valued. Levin may have scorn for the old hardware/software dichotomy, but if that's what investors want, Levin is apparently prepared to give it to them.

Back in the real world Levin counts heavily on the new digital videodisk created in partnership with Toshiba. Paramount, MCA, Turner and MGM and Thomson Consumer Electronics have decided to buy the disk, rather than the competing Sony product. It will have 4½ to 5 hours

The original plans called for streets.
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Why Jerry Levin barrels ahead

ASK JERRY LEVIN which businessmen he most admires, and the answer is not the predictable Steve Ross or Henry Luce. "The man who most influenced me," says Levin, "was David Lilienthal."

Few Americans born after World War II will remember David Lilienthal, but to an older generation he cut a wide swath through business, finance, politics, international affairs. Born in 1899 in Morton, Ill., he was educated at DePauw University and Harvard Law School. He was a member of the Wisconsin Public Service Commission under Wisconsin Governor Philip La Follette, son of the great populist. In 1933 Franklin Roosevelt brought Lilienthal into the spotlight when he named him a director of the New Deal's controversial Tennessee Valley Authority. From 1941 until 1946 Lilienthal served as the TVA's chair-

man. In 1946 Harry Truman appointed Lilienthal the first chairman of the U.S. Atomic Energy Commission.

In 1955 Lilienthal veered toward Wall Street. With financial backing from Lazard Frères' André Meyer he founded Development & Resources Corp., a natural resources firm specializing in infrastructure projects.

Among these were a large contract from the Peace Corps to develop the Mekong River Delta in Vietnam, and an enormous plan to turn a southern desert region into a fertile breadbasket for Iran. Begun during the Shah's regime, it collapsed during the late 1970s, a victim of that nation's political instability.

Lilienthal died in 1981, aged 81.



David Lilienthal, Levin's mentor
A higher purpose than money.

Fresh from four years at Simpson Thacher & Bartlett, the New York law firm, Levin went to work for Lilienthal's Development & Resources Corp. in 1967 and stayed until 1971. He became general manager and chief operating officer in 1969. But in 1971, after Development & Resources was taken over by International Basic Economy Corp. (a Rockefeller family enterprise), Levin became IBEC representative in Tehran, Iran.

"It was there I got my interest in technology because we had 300 engineers working for us," says Levin. "There's not a lot of difference distributing electronics and distributing water."

What did Levin learn working with Lilienthal? "He taught me that the discipline of making money is very important, but never forget, there's a higher purpose," Levin replies. He adds: "Lilienthal would just barrel ahead, no matter what was put in front of him. And you know, that's me." —R.L.

has recently disclosed the \$2.2 billion purchase of Houston Industries' cable systems; this will give Houston Industries preferred stock convertible to 5% of Time Warner. He also intends to acquire Cablevision Industries, which operates in New York, North Carolina and Florida, among other places. These two deals will raise Time Warner's cable subscribers to 11.5 million, neck and neck with TCI, John Malone's company.

These transactions come on the eve of a significant policy change in Washington. Congressional Republicans propose to reduce the level of regulation of both cable and telephony operators. Regardless of this legislation, Time Warner's cable operations will show double-digit operating revenue gains by the end of 1995. Levin calls House Speaker Newt Gingrich "the Prince of Cyberspace, a total believer in Internet and what we are doing."

What about that full-service interactive network just introduced in Orlando, Fla.? Levin refuses to disclose how much money Time Warner has invested, but he insists he hasn't bet the company on the experiment. "The money

won't go in unless it's clear there is a marketplace," he says. Privately, he says that video-on-demand will catch on mainly with the computer-friendly generation. He expects his investment in upgrading cable systems for interactivity to pay off on a whole host of activities, including movies on-demand. He is certain people will spend money to get movies when they want them in the comfort of their own homes. "I will stake my career," he says, "that people will buy movies on demand."

It's not easy, creating present value for shareholders in a fickle stock market while continuing to make investments that won't pay off for years. Levin says he can do both. "I'm not going to hide behind building long-term value at the expense of short-term performance," he insists.

"It's got to be this year," says one Wall Streetier. "Whatever happens, the market will speak. The market is going to have the last word." Another ten points of Time Warner stock might just ensure Gerald Levin's survival.

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Succession is problem number one for many an entrepreneur. Here's how Brandon Systems' Ira Brown is dealing with it.

Sometimes the best man for the job is a woman

WHEN IRA BROWN WAS 10 he was delivering suits for a tailor in his Brooklyn neighborhood; by 12 he was delivering papers and earning \$8 a week—big money for a youngster in the 1930s. After stints in the Merchant Marine, at Westinghouse Electric (designing turbines) and Loral Corp. (running computer operations), in 1968 Brown started his own business, Brandon Systems Corp.

Now 67, Brown is looking forward to spending some of the money he has amassed. But as is the case with many entrepreneurs, wanting a successor is easier than getting one. "I've been trying to let go since I started the company," Brown jokes. "I never found the people I could trust."

Brandon Systems is a temporary staffing agency specializing in data processing workers. In fiscal 1994 (ended Oct. 2), Secaucus, N.J.-based Brandon Systems had 2,200 employees on its payroll and earned \$4.9 million on revenues of \$67 million. Brown's 30% stake in the company is now worth \$24 million—more than enough for some serious travel with Myra, his wife of 40 years.

Twice during the past 15 years Brown has brought in would-be successors. He says he fired the first for setting up a rival temp agency behind Brown's back and the second because he had a roving eye.

Oftentimes the best successor is a company veteran. And sometimes he's a she—especially now that women have spent years working up through corporate structures.

Ira Brown believes he has finally solved his succession problem by promoting 37-year-old Domenica Schulz-Scarpulla to head of the company. Schulz-Scarpulla hired on at



Claudio Edinger/Gamma Liaison

Brandon Systems' Ira Brown and Domenica Schulz-Scarpulla
"If you want to have succession planning, you've got to bring in good people, and you can't undermine them."

Brandon as a 23-year-old sales rep in 1981. Divorced, with an infant daughter to support, she badly needed the job and worked like a devil to advance in it. Working out of Brandon Systems' three-person office in New Brunswick, N.J., she called on big companies like AT&T and Johnson & Johnson, schooling herself in the art of selling as she went along.

"I took a very soft sell approach," recalls Schulz-Scarpulla. "If I couldn't get their business, I would ask if I could keep in touch with them, learn about the business from them."

Customers responded to Schulz-Scarpulla's manner. Within three years she was running two offices in New Jersey and producing more than half of Brandon's sales and profits. As Brown concentrated on opening new offices around the country, he began

turning over more responsibility to his bright young sales manager.

By 1989 Brandon had 16 offices and \$30 million in revenues. Brown began to seriously groom Schulz-Scarpulla to succeed him. He remembered a lesson learned years before. While at Loral Corp. he had watched Loral cofounder Leon Alpert destroy his number two man by continually second-guessing him. "I said to myself, 'You can't do that. If you want to have succession planning, you've got to bring in good people and you just can't undermine them,'" says Brown. "Eventually Leon had to sell out," Brown continues. "He didn't have a succession plan."

Determined not to make this mistake with Schulz-Scarpulla, Brown put her in charge of the company's largest division, the temporary com

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ter operator business. He then departed with his wife to spend six weeks in Australia. "When I came back, things were as smooth as if I had never left," beams Brown.

The next test for Schulz-Scarpulla came in 1991, when Brown put her in charge of Brandon's moneylosing programming division. Schulz-Scarpulla turned the operation around in nine months and then merged it with the larger division, a major reason that Brandon's profits nearly doubled between 1992 and 1994. Brown named her chief operating officer in 1992 and president a year later.

Schulz-Scarpulla has looked for ways to coexist profitably with outfits like IBM's Integrated Systems Solutions division and Electronic Data Systems. Increasingly these companies buy up clients' data centers and rent them for a fee; this could separate Brandon Systems from many of its best customers. To stay in the game, Schulz-Scarpulla positioned Brandon Systems as a subcontractor to the big contractors, providing them with staffing for highly specific functions, like managing tape libraries and running printers. Thus has Schulz-Scarpulla doubled business with IBM and EDS. Last year Brandon's earnings of \$1.10 a share were up smartly from 69 cents a share in fiscal 1993.

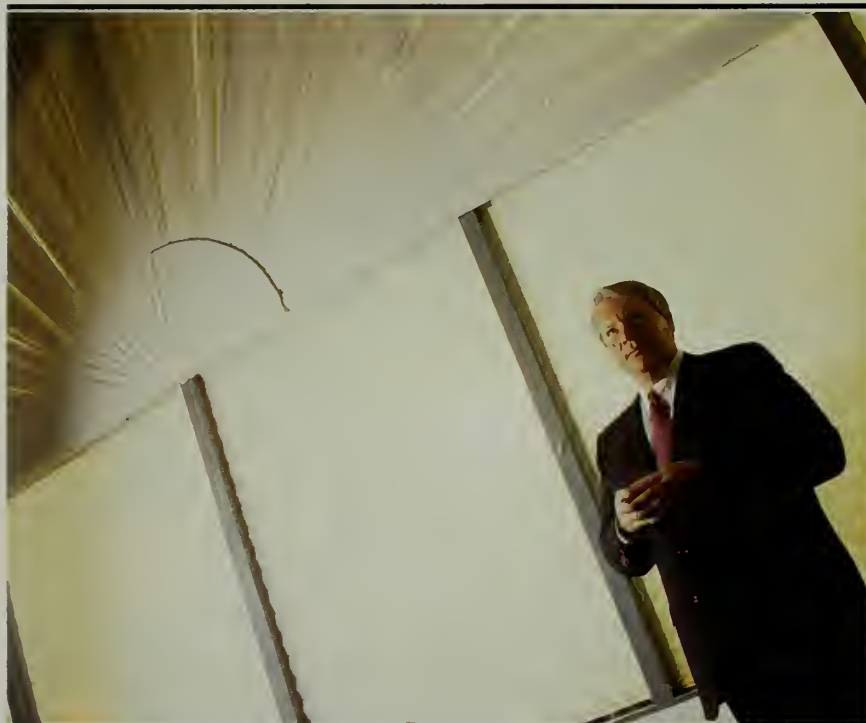
Remarried and, as of Jan. 30, the mother of a new daughter, Schulz-Scarpulla says she'll open 8 sales offices this year, raising Brandon's total to 32. She and Brown are also considering three acquisitions—Brandon is debt-free and sitting on \$15 million (\$3.49 a share) in cash—that would extend the company's reach within the U.S. and into Canada.

Won't the new baby slow her down? Schulz-Scarpulla shoots back: "If I could do it when I didn't have a husband and was making \$20,000 a year, I can certainly do it now." Analysts who follow the company predict Brandon's earnings will rise another 10% this year, to \$1.30 a share. At a recent 18, Brandon's American Stock Exchange-listed shares have nearly doubled over the last year.

Though not scheduled to retire until 1996, Ira Brown says he's found a woman and may not wait. "I'm ready for Dee to take over, anytime she wants to," he chirps. —F.M. ■

FOLLOW-THROUGH

Buying doctors



Coastal Healthcare's Steven Scott
Betting big on managed care.

IN 1983 Steven Scott, a North Carolina obstetrician, began to contract with other doctors and then resell their services to hospital emergency rooms around the Southeast. By 1993 Scott's Coastal Healthcare Group had 3,200 doctors under contract, making it the largest provider of contract health care and administrative services to hospitals in the country. Earnings that year hit \$14 million (\$1.03 a share) on revenues of \$447 million (*FORBES*, Oct. 25, 1993).

Since then, Scott, now 46, has shifted strategies. He has used Coastal Healthcare stock to acquire the practices of 900 physicians, half of them in primary-care and mostly in the Southeast. After buying, he cuts costs, consolidates purchasing and back-office functions, and goes after contracts with HMOs.

Scott explains the new strategy and his frantic acquisition pace this way: "What I've seen is that once managed care hits 12% to 15% of a market, there seems to be a doubling of [managed care] penetration in the next 12 months. I saw that

happening in my own markets, and if I didn't get out there I'd miss it."

Analysts who follow the company think Coastal earned about \$31 million, or \$1.38 a share, last year on revenues of \$750 million. Coastal's earnings are expected to be up another 20% in 1995. But Coastal's stock has been going the other way. Over the past year the stock has dropped from a high of 42 to a recent 26½—partly because Wall Street has knocked down lots of high-earnings-multiple stocks, but also because Scott's moves into the HMO market, including the acquisition of a Tallahassee, Fla. HMO, represent an untried strategy for a physician management company.

Scott, whose 34% stake in Coastal is now worth over \$200 million, says he intends to remain an aggressive acquirer of physician practices. But with Coastal's stock down, he'll pay with cash. "We have a \$200 million line of credit we haven't touched," he says.

—MATT WALSH

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What A Luxury Car Should Be

Anyone who thinks starting a business will generate riches overnight is almost certain to be disappointed. Robert Harshaw was, but he stayed the course.

Don't count your chickens

By R. Lee Sullivan

OVER DRINKS at a Christmas party ten years ago, Robert Harshaw was chatting with his host, Dennis Keith, about a ghoulish subject: airplane crashes. Keith, who was head of Frito-Lay's corporate jet operations, told Harshaw that several recent disasters had been caused by "checklist" errors—pilots carelessly rushing through such pre-takeoff and pre-landing procedures as setting wing flaps, checking hydraulic systems and lowering landing gear. Just a year earlier, for example, a United DC-8 had crashed on takeoff in Detroit because the crew neglected to set the stabilizer trim.

Harshaw, who had just finished up a Ph.D. in physics at the University of Texas in Dallas, would soon take a job working on the Star Wars missile defense program at Texas Instruments. But the holiday conversation nagged at him. Computers, he knew, could produce digitized speech. Why not use a talking computer to solve the checklist problem?

With advice from Frito-Lay's Keith and a cousin, Timothy Doell, who ran a small company installing air conditioners in corporate aircraft, Harshaw, then 28, cobbled together a computer the size of a car stereo. A recorded voice from the little black box called off items from an airplane's checklist. When the pilot completed a task, he pushed a button on the control stick, and the computer called off the next item. Cost of developing the prototype: \$20,000.

That fall Harshaw, Keith and

Doell incorporated a company, Heads Up Technologies, Inc., to market the product, and rented a booth at the National Business Aircraft Association convention in New Orleans. In one day they sold 12 checklist computers to corporate flight directors, at \$4,500 each.

"We're gonna get rich!" Harshaw remembers thinking. But it didn't work out quite that smoothly.

Unwilling to give up their regular jobs, Harshaw, Keith and Doell ran Heads Up in their spare time and on the cheap, relying on Keith's connections in the corporate flight community for most of their sales. In their first year they sold just 50 of their checklist prompters.

By late 1987, two years after launching Heads Up, it was time to fish or cut bait. The partners decided to fish. They sold around two-thirds

of Heads Up's equity to a group of private investors for \$1.3 million; the cash infusion enabled Harshaw to quit his job at TI to market the product full time. But he failed to make any headway with commercial airlines' equipment buyers, who generally shun products not required by the Federal Aviation Administration.

Heads Up limped along. Losses mounted. Then, in March 1989 USAir began testing Heads Up's system, and a \$2 million deal for checklist prompters was in sight. Thinking he had finally hit the jackpot, Harshaw spent \$350,000 to modify Heads Up's computer for USAir. But in early 1991 USAir canceled the program as part of a cost-cutting drive.

For the first time Harshaw, now 37, began to doubt himself. "Either I was totally ahead of my time," he recalls thinking, "or I was totally wrong."

It turned out he was neither. Rather, his mistake lay in focusing on too narrow a niche.

Harshaw heard that Cessna was taking bids on an emergency warning system for its new CitationJet business jet. He decided to take a chance. He reworked the checklist system he'd developed for USAir into a system that would use digitized voice and other sounds to alert pilots to equipment malfunctions. Harshaw bid for the Cessna CitationJet business and, to his surprise, won.

With \$400,000 in orders from Cessna in 1993, Heads Up broke into the black. Since then Harshaw has looked for other ways to apply Heads Up's computer-voice safety and information technology. He has developed an audio system that provides destination information to blind and rail passengers. In the work is a handheld checklist computer to prompt anesthesiologists through their procedures during surgery.

Last year Heads Up earned \$200,000 (pretax) on \$1.7 million in sales. But Harshaw, who owns 12% of the company (so do Keith and Doell) and draws salary of around \$60,000 a year, is still a ways from his decades-old dream of getting rich. "I thought business was easy," says. "Little did I know!"



Heads Up Technologies' Robert Harshaw
His company nearly crashed on takeoff.



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Gregory Hutchings learned the fine art of buying and fixing sagging companies from the masters. He was one hell of a pupil.

A conglomerate of his own

By Peter Fuhrman

WHEN GREGORY HUTCHINGS started his construction company in Britain in 1971, he was only 24 and his boyish looks worked against him. Hutchings tried to add a decade to his appearance by sprinkling talcum powder in his sandy-blond hair.

In 1980 the talcum powder ploy helped win him a job as chief acquisition scout at Hanson Plc., Britain's

giant conglomerate. In his final interview in London with Hanson's two founding partners, Lords James Hanson and Gordon White, Hutchings told them about the talcum powder. Recalls Lord White: "We could tell immediately that [Hutchings] was very bright, very energetic and very much in a hurry to succeed."

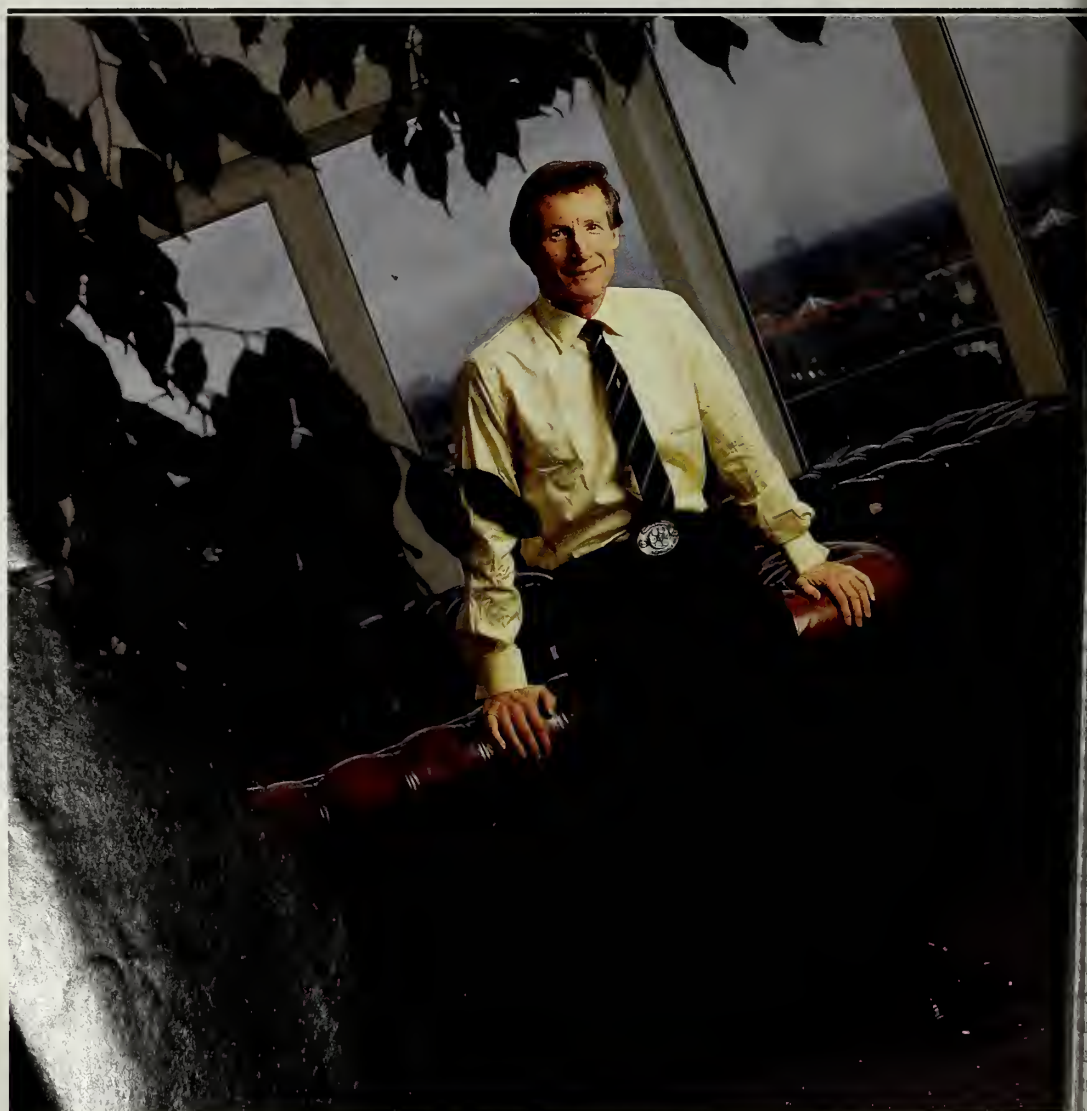
It didn't take Hutchings, then 33,

long to master the Hanson/White technique of seeking out weakly managed companies in basic manufacturing industries, buying them, streamlining their operations, selling them and moving on to bigger targets.

But Hutchings was meant to run his own show, and after just three years at Hanson moved on. He used his savings and borrowed almost \$1

Gregory Hutchings, chairman of Tomkins Plc.

He started at Hanson Plc. but left to build his own small-scale version of the firm. Today he owns 72 different companies, with total sales over \$5 billion.



million to buy an 11% stake in a small, publicly traded company called Tomkins Plc. This was a big come-down from working for Hanson. Tomkins made belt buckles and industrial fasteners. It was earning an impressive \$1.6 million, pretax, on sales of \$25 million.

Taking over as Tomkins' chief executive, Hutchings made two small but important changes at the dusty firm: Salesmen and engineers were told to make their own decisions rather than continue to refer everything to the head office. Hutchings also gave these employees bonuses linked to growth in profits and an increase in Tomkins' overall return on equity. In the first year under Hutchings, Tomkins' profits almost doubled. In the Hanson/White style, Hutchings put the extra cash flow to work. He

Hutchings' timing was right. Margaret Thatcher's leadership was injecting new optimism into the London stock market in 1984.

bought an auto parts distributor and an old-line British lawn mower manufacturer.

Hutchings' timing was right. Margaret Thatcher's leadership was injecting new optimism into the London stock market. This, plus the sudden signs of life at Tomkins, pushed up the company's stock price from the equivalent of 15 cents a share when Hutchings bought his stake to \$1 a share by 1985. The higher-priced stock was currency for yet more acquisitions.

Ten years and some \$2 billion in acquisitions later, Tomkins Plc. has become a smaller-scale version of Hanson. Tomkins now owns 72 different businesses in the U.K. and the U.S. Among its U.S. holdings are Springfield, Mass.-based Smith & Wesson Co., America's largest handgun maker, and the Murray Ohio Manufacturing Co. of Brentwood, Tenn., a leading U.S. producer of lawnmowers and bicycles.

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Nationally underwritten by Digital Equipment Corporation; A.G. Edwards, Inc.;
The Franklin/Templeton Group and Public Television Stations nationwide.

Tomkins' other companies in the U.S. and Britain make everything from valves and heating ducts to bathroom faucets. Consolidated revenues were \$5.1 billion in the year ending last year. 30; pretax profits were \$400 million. In the first half of the current year revenues were up 17% and pretax profits up 22% on the same period last year. About half of Tomkins' revenues and profits are earned in the U.S.

While Hutchings credits Hanson and White with teaching him how to find and finance undervalued industrial assets, he parts company with them in one major respect. The common practice at Hanson is to acquire a company, slash overheads and then sell the business. Hutchings buys but doesn't sell.

"Hanson are traders of businesses, and they are very good at it," says Hutchings, "but they are probably weaker at actually developing businesses. That's where I see the greatest opportunities." Along with making acquired businesses more efficient, Hutchings pours in new capital for expansion—\$150 million in the current year. The guideline for new investments, says Hutchings, is that

"Hanson are traders of businesses, and they are very good at it, but they are probably weaker at developing businesses."

they must pay for themselves within three years.

Here's Hutchings at work: In the three years he has put \$18 million into Smith & Wesson, both to improve manufacturing efficiency and to get to market a new lightweight plastic handgun. Smith & Wesson's operating profits should reach \$60 million this year, up \$30 million from three years ago.

In 1990 Tomkins put up \$550 million for Philips Industries, a Dayton, Ohio-headquartered manufacturing hodgepodge. Philips is the largest manufacturer of windows for

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recreational vehicles, a slow-growth business. Hutchings pushed the company to expand by manufacturing vinyl windows for homes, now a \$40 million business.

In November 1992 Hutchings made his biggest acquisition: Ranks Hovis McDougall, one of Britain's largest baking and milling companies. He paid \$1.5 billion, raised mainly by issuing new stock. Hutchings outbid his old mentors at Hanson Plc., who had made a hostile offer of \$1.25 billion for Ranks Hovis.

The acquisition came at a time when U.K. bread prices and baking margins were tumbling. The stock market, thinking Hutchings had finally tripped, quickly knocked almost 25% off Tomkins' stock market value.

The stock market quickly knocked almost 25% off Tomkins' share price. But it's now clear Hutchings knew what he was doing.

But two years later it's clear Hutchings knew what he was doing. After closing 10% of Ranks Hovis' capacity, he pushed managers to boost sales of higher-priced rolls and whole-wheat breads. This fiscal year Ranks Hovis' operating earnings will reach \$200 million, up 50% from when Hutchings bought the company.

Still youthful-looking at age 48, Hutchings no longer disguises his age. He predicts that Tomkins' sales will double, to \$10 billion, by the end of the decade. Tomkins, that little outfit he bought into for \$1 million, has a current market capitalization of \$4.2 billion; Hutchings' much diluted stake is now worth \$20 million. Tomkins' American Depositary Receipts started trading on the New York Stock Exchange in mid-February.

His mentors, Hanson and White, still admiration for the young man with the talcum powder trick. "Greg may have learned some things from us," says Lord White, "but his entrepreneurial flair was there from the start."

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Harry Quadracci's big on that touchy-feely New Age management stuff, but beneath the flamboyant exterior is one smart financial mind.

“Harry’s a great storyteller”

By Phyllis Berman

works at Quad/Graphics, from janitor to Harry himself, wears a blue shirt-and-slacks uniform in plant or office. There's a so-called Quad/University, an annual two-day convention for 700 company managers at places like Wisconsin's Lake Lawn Lodge or Milwaukee's Alverno College, where lecturers hold forth on New Age stuff like Taoism and transcendental meditation.

There's a two-day, overnight camp on a 40-acre nature preserve to teach customers about the latest printing technology. There are indoctrination classes for new employees.



Photographs by Dave Schibrow



Harry V. Quadracci and employees, all in uniform

The technology goal: truer colors and faster speeds. Harry was always ahead in both, says a customer.

HARRY V. QUADRACCI, the 59-year-old Racine, Wis. native and founder of Quad/Graphics, has become a cult figure in American management circles. He and his company have been extolled in more than 20 books on management.

The 100 Best Companies to Work For In America gives the privately owned printing company five stars in its ca-

maraderie category, and four stars in both opportunity and fairness. A journal called *Business Ethics* praised Quad/Graphics for “Business as Social Experiment.” Author and consultant Tom Peters, in his *Liberation Management*, calls Quad/Graphics a learning institution.

No question, Harry Quadracci puts on quite a show. Everybody who

At the company's annual Christmas party one year Harry Quadracci arrived at his Sussex, Wis. plant seated on an elephant and wearing a ringmaster's costume as the band blared “Be A Clown.” Another year, walked across a high-tension wire strung across the factory floor.

The attention directed at these activities catches the trappings

Quad/Graphics but misses the essence. The essence is this: Harry Quadracci is a hardheaded businessman who uses the hoopla quite deliberately. It helps distinguish his company from the great gray mass. It helps keep employees engaged and fend off the unions, which have destroyed or crippled so many other printing concerns. Best of all, Harry Quadracci knows how to charm the pants off lenders, whose largesse has enabled him to build a company from scratch without having to take in equity partners.

Consider this: Quad/Graphics has gone from owning a single heavily

and a few of his original employees still own around 60% of a company with a probable value of \$800 million; an employee stock ownership plan owns 30% and a few early backers about 10%. This is almost the reverse of how most entrepreneurs end up.

To get to know the real Harry Quadracci, visit with us Quad/Graphics' headquarters in Pewaukee, Wis., situated in farming country dotted with the deserted barns and empty silos of abandoned farms.

When FORBES showed up, Quadracci was sitting in a glass-walled office at the top of a short flight of stairs, whence he can watch—and hear—huge presses spitting out millions of pages every hour. For most people the noise would be a distraction; for Harry Quadracci the sounds are almost soothing.

He was wearing the requisite blue uniform. How, we asked him, do you build a company like this from almost nothing without having to beg for outside financing? Harry Quadracci deftly switched subjects, replying: "When we started this business I refused to appoint anyone to be in charge of the pressroom. I said, 'Each pressman is going to run his own press.' And people said to me, 'You can't do that. You'll fragment management.' And I said, 'That sounds like a good idea. Let's fragment management.'"

Only later, after spending a few hours with Quadracci's wife and partner, Betty Quadracci, and John Fowler, the company's chief financial officer, did we penetrate Harry Quadracci's show-biz front. Betty Quadracci is a tough-minded graduate of Washington, D.C.'s Trinity College who worked part time in the front office at Quad/Graphics in the early days and now is the publisher of *Milwaukee Magazine*, a wholly owned subsidiary of Quad/Graphics, and head of a 27-person design department (plus mother-in-chief of four children).

The young Harry, Betty Quadracci told us, spent his childhood living above his Italian immigrant grandfather's grocery store in Racine. When Harry was 12 the family moved to suburban Milwaukee. You wouldn't know it from the grownup Harry Quadracci's outgoing persona,

but the young Harry was a bit of a nerd. "He was a briefcase kid and an outsider, when being smart wasn't in fashion," she recalls.

Harry graduated from Columbia University law school, still a bit of a shy kid and an outsider. He recalls attending a welcoming cocktail reception for students, packed with kids from fancy eastern high and prep schools and elite colleges. "Harry Quadracci, Wawatosa, Wisconsin; Regis College, Denver, Colorado," read his name tag. "How did *you* get here?" somebody asked him. Harry was speechless.

Back to Milwaukee he went after graduation and a short stint at a law firm in New York. He soon was working—first as outside counsel, later as an employee—at the company where his father had labored since the 1930s, the big Milwaukee printer, W.A. Krueger. There Harry rose fast, becoming, at the age of 34, general

All the attention catches the trappings but misses the essence: Harry Quadracci is a hardheaded businessman who uses the hoopla quite deliberately.

manager of the plant, and also in charge of negotiating with the labor unions.

What he doesn't admit but is rumored is that he was fired from Krueger at the age of 34.

What happened apparently was this: Quadracci thought that many of the company's problems were due to the customary relationship in the industry between unions and management, wherein management in effect surrendered control of the workplace to the unions and constantly caved in to their wage demands. Despite his advice to hang tough, management decided to give in on wages and work rules after a bitter 14-week strike in 1970. Shortly thereafter, Quadracci was out.

The experience shook Harry deeply. His dad, Harry R., had founded a small printing shop. He sold it for



mortgaged press in 1971 to become an \$800-million-a-year major player in a capital-intensive business. Most entrepreneurs must raise expensive equity capital to expand at anything like this rate, and often equity dilution proves their downfall. Not Quadracci. He has financed all this expansion almost entirely with borrowed money and without becoming beholden to his lenders. He has never had to kowtow to Wall Street.

As a result of his financial skills, he

\$350 in the 1930s to pay the debts on his father's grocery business, then went to work for the buyer, William A. Krueger, becoming director of manufacturing. He spent 40 years on the job, but never owned a significant share in the business.

Harry reached an obvious conclusion from his dad's position and his own unemployment: He had better become his own boss. "He had always talked about starting his own company, but I guess you don't do it until your back is against the wall," says Betty Quadracci.

But why printing, a stodgy, crowded, slow-growth, union-riddled industry? Because Harry Quadracci looked beneath the surface and saw an industry on the verge of a technological revolution.

For generations, most printing was done by one- or two-color letterpress, with cast metal plates applied directly to paper. But four-color offset lithography, an indirect image-transfer process, was coming in. Harry understood that the new process would produce better and quicker printing.

This meant, in effect, that billions of dollars' worth of expensive equipment was on the verge of obsolescence.

"We thought we had as much chance as the established companies to get business if we had the latest technology. We didn't have old presses to phase out and write off," Quadracci says.

After leaving Krueger he got a job running a small Detroit printing operation and began planning the next step. He would buy a press with the latest four-color offset lithography technology. But how? The press he wanted alone cost \$900,000—about 20 times more than he had.

And now Harry Quadracci demonstrated for the first time the financial astuteness that was to take him so far. Tax shelters were flourishing in those days, and they offered shrewd people a cheap way of raising money. Harry formed Press Associates, a limited-

partnership tax shelter, and persuaded 15 of Milwaukee's wealthy businessmen to put up a total of \$250,000.

With that much front money Press Associates was able to borrow \$650,000 from a local bank to buy the press and lease it to Quad/Graphics. The investors got juicy tax benefits, including an investment tax credit and accelerated depreciation.

Quadracci obtained an additional \$90,000 in equity capital by taking out a second mortgage on his house,

second press, for example, was financed by the manufacturer, Harris Graphics, happy to lend most of the price on the strength of the company's record.

In 1974, Quadracci set up an Employee Stock Ownership Plan which bought back most of the Press Associates warrants over time. Since then, Harry Quadracci has never taken an equity partner.

"Harry knew we were what is known as a 'story credit,'" says the company's longtime chief financial officer, John Fowler. "And Harry's a great storyteller." Quad/Graphics wasn't just borrowing on collateral but on the strength of Harry Quadracci's ability to articulate his ideas and to convince lenders that he was a good risk. Adds Fowler: "Harry was so entertaining and enthusiastic about the business that the senior credit officers who toured the plants were clamoring to lend to us."

Quadracci recalls, "The banks actually started competing with each other to lend to us. And that was a time when cash generated by the entire operation counted for only about 1% of the capital spending budget." In short, Quadracci was expanding so fast that he was investing

plant and equipment almost seven times his annual cash flow.

In 1985, at \$121 million in revenues, Quad/Graphics was finally enough to tap the private placement market. Quadracci won a true believer in Thomas S. Shattan, now head of private equity group at Prudential Securities. Shattan helped bring General Electric's Pension Trust which purchased convertible subordinated notes to finance Quadracci equipment purchases and building expansions. Explains Shattan: "Getting a long-term, equity-oriented investment like General Electric Pension Trust meant that Quad/Graphics got its permanent financing without having to go to the public market."

Today Quad/Graphics has an



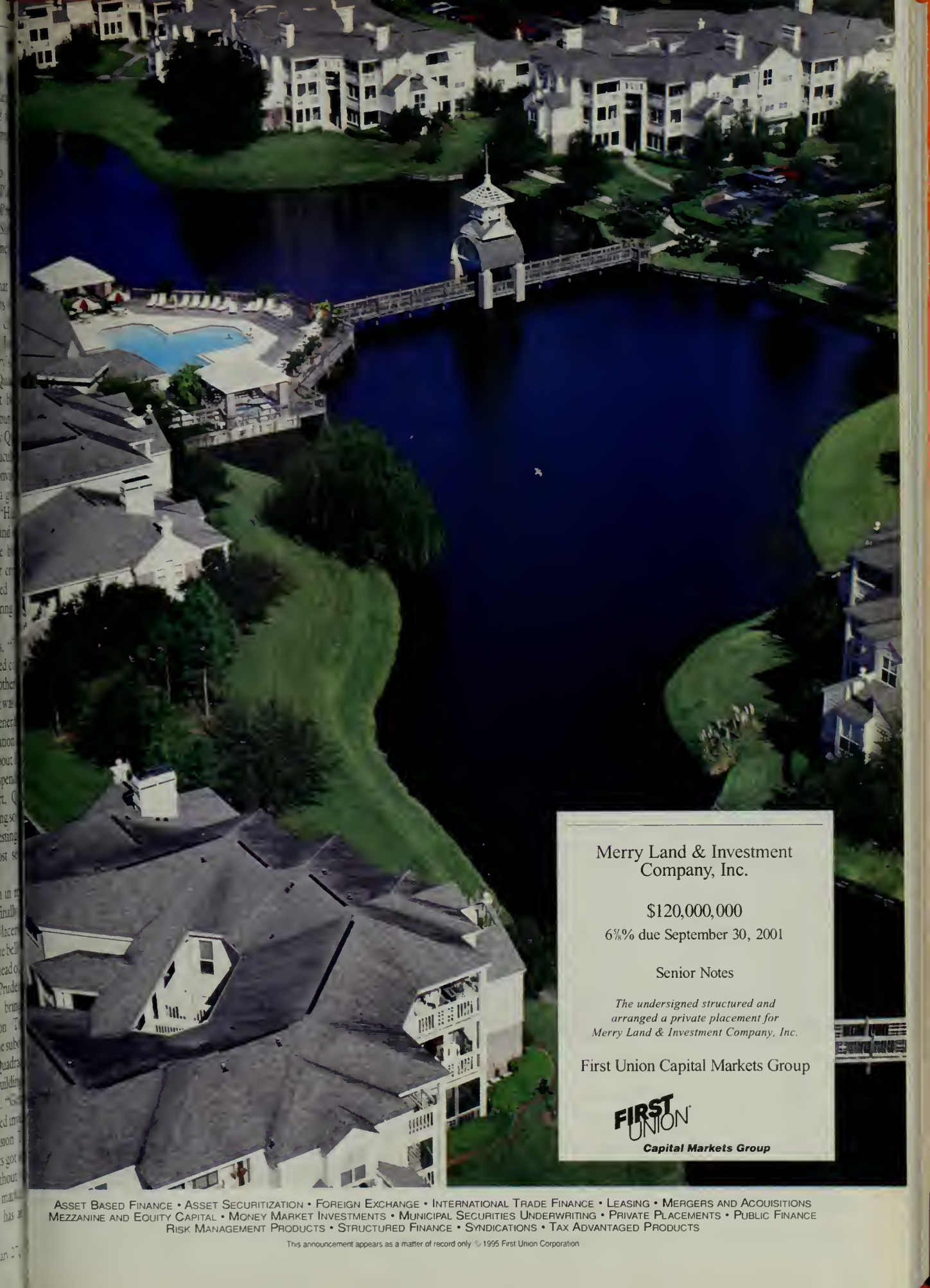
Betty and Harry Quadracci with children

From the top: Joel, Elizabeth, Kathryn and Richard.

selling a 30% stake in the company, getting loans from relatives and persuading a few potential employees to tap their savings. That produced money to buy an abandoned warehouse to house the press and provide working capital. He and his wife solicited business, signing up such small publications as *Mail, Inc.*, *Investor Magazine* and *Fishing Facts*.

Soon the press was running around the clock and the 15 tax shelter investors got their money back in 24 months; they also received warrants that amounted to a 10% interest in the operation.

That first financing set the pattern. With each of his presses Quadracci relied on one form or another of short-term equipment financing. His



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vestment-grade credit rating of triple B and borrows from about 20 insurance companies. These institutional lenders also get a tour of Quad/Graphics.

By such long-term, fixed-rate financing Harry Quadracci's company has grown from one heavily mortgaged press to 64 presses in six locations. Quad/Graphics' presses average just six years of age, versus ten years for the industry as a whole. Today Quad/Graphics prints nearly half of *Newsweek*, much of *Time* and all of *Black Enterprise* and *Mother Jones*, among others.

Newsweek was Harry Quadracci's first big catch. Says Angelo Rivello, *Newsweek*'s senior vice president of manufacturing and distribution, "This is the top quality printer in the industry: By that I mean it prints more pages per hour with less paper waste than anyone else in the business. The product is nearly flawless." In addition to magazines, the company prints catalogs and freestanding newspaper inserts. In volume, Quad/Graphics is fourth, surpassed only by R.R. Donnelley, Quebecor and World Color Press.

As rivals have spent heavily and matched Quad/Graphics' technology, Harry Quadracci has broken new ground. His so-called demographic

But why printing, a stodgy, slow growth, union-riddled industry? Because Harry looked beneath the surface.

binding machines allow customers to add and delete pages and to send customized messages to each and every catalog reader. A Quad/Graphics-printed catalog may thus contain a message such as this: "John Doe, there's a jacket on page 5 that would go well with the pants you purchased last spring."

So there's more to Harry Quadracci's success than blue uniforms and elephants. But the uniforms and the elephants are important, too, and all that publicity doesn't do Quadracci any harm when it solicits business or credit: Today everyone knows who



Harry Quadracci in feathered admiral's hat, Christmas 1981

The first of many public performances.

Harry Quadracci is, everybody knows he's somebody special.

His early confrontation with the unions at Krueger also taught him a powerful lesson: You can often get more effort and creativity from people with kindness and care than you can with money. A good many people whom society would dismiss as losers have been given a chance at Quad/Graphics, and they are grateful. "We hire people who have no education and little direction," Quadracci explains. "They are the kind of people who look at their shoes when they apply for a job. They join the firm not for its high wages—starting salaries on the floor are only about \$7.50 an hour—but because we offer them a chance to make something out of themselves."

Employees have a full-time free medical clinic and discount pharmacy, a generous health insurance plan and three subsidized on-site day care centers.

There's even Quad/Cuisine, the company cafeteria, which provides 24-hour food service and has a liquor license. No drinking allowed on the job, but at the twice-yearly "think small" meetings, where 10 or 12 people on the same press get together to discuss problems and build team-

work, nobody minds if you quaff beer or sip a highball.

It seems to work. Quad/Graphics 7,500 employees work rotating three day, 12-hour shifts, plus every other Sunday. They go home tired after those 12-hour shifts, but they get three or four days to recuperate—plus they know they have a chance to rise to the world.

A high school dropout who joined the company on the lowest rung of the ladder can often become a foreman within five to six years, compared with the seven or eight years it would take at competitors.

All Quad/Graphics employees become owners through the Employee Stock Ownership Plan that bought out Quadracci's early backers. The ESOP also has helped keep control in Harry Quadracci's hands.

Sometimes Harry Quadracci seems a bit sheepish about some of the antics he performs in living up to his role as New Age kind of boss.

"When I read some of the stuff in these books I wonder, 'Did I really do that?'" Quadracci confesses. The serious businessman breaks through the showman: "What I'm particularly proud of is that to build this company I relied almost entirely on credit."

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Priced out of sponsoring the Olympics?
Have we got a sled dog for you.

Adventure marketing

By Randall Lane

NORMAN VAUGHAN celebrated his 89th birthday two months ago in an unusual fashion: He scaled the 10,000-foot Antarctic mountain that bears his name. Standing on the peak Admiral Richard Byrd named for him back in 1931, Vaughan saluted "the tenacious spirit of the Antarctic sled dogs who never gave up."

But first, he thanked his sponsors. Sponsors? That's right. Over 70 companies helped underwrite Vaughan's \$1.5 million expedition. Among them were Federal Express, Penske Transportation and the Zimmer Co., which manufactured Vaughan's artificial knee. "We use all the products or we wouldn't endorse them," Vaughan says.

Welcome to the brave new world of "adventure marketing," an aspect of narrowcasting in which companies sponsor bizarre expeditions and competitive sports designed for the physically fearless. Jim Andrews, vice president of International Events Group, a Chicago-based consulting firm, says marketers spent \$50 million last year on such events, triple the amount of five years ago.

Adventure marketing is a cheap way to flash your logo on the screen. Example: Two years ago Du Pont sponsored Helen Thayer's trek from Resolute Bay, Canada to the North Pole. Accompanied by her dog, Charlie, 56-year-old Thayer plastered Du Pont's logo on all her insulated, extreme-temperature gear. The chemical company got great exposure when morning talk shows and evening newscasts began picking up the story. Cost to Du Pont: just \$60,000. Compare that with \$1 million for a 30-second spot on the Super Bowl. "For



Dwight Collins, and his aquatic bicycle
Providing Moët & Chandon more marketing bang for the buck.

a relatively small investment, [Du Pont] got a lot of publicity," says Dan McConnell, a Seattle-based marketer who brought Du Pont and Thayer together.

This summer ESPN is sponsoring an Olympics-style "Extreme Games" event. Events include sky surfing—a skydiving stunt involving a snowboard and a video camera—and downhill in-line skating. Among the backers: GM and AT&T, which each put up about \$1 million for sponsorship rights to the eight-day event. That's big-ticket as adventure marketing opportunities go, but even so it compares nicely with the \$40 million that Sara Lee paid for a full sponsorship for next summer's Atlanta Olympics.

Last year Schieffelin & Somerset's Moët & Chandon champagne divi-

sion ponied up \$35,000 to back Dwight Collins as he pedaled 41 days across the Atlantic on his aquatic bicycle—a kind of Rube Goldberg paddle-wheel contraption. Collins put the Moët name across the cabin and gamely toasted network cameras with the sponsor's bubbly at the finish in Plymouth, England. He also threw Moët bottles out in midocean—with notes inside. A Frenchman in Normandy found one and was rewarded with his weight's worth of champagne. Nice stunt, great local media pickup.



Like the adventurers, the sponsors take risks. An event that's ignored by the media doesn't do much for the corporate image. Neither does a failed mission. The Hilton-sponsored Earthwinds balloon tried four times to circumnavigate the globe in 1993 and 1994. Combined, the four trips lasted less than 400 miles. For this one event Hilton and over 100 lesser sponsors forked over about \$7 million in cash and equipment.

Another risk: In adventure marketing, something might go disastrously wrong. "You've got a strong responsibility not to send somebody out to their death," says Jeff Blumenfeld, who runs a Darien, Conn.-based company that matches companies with explorers and other stuntmen. Last month, a sailor in a round-the-world yacht race, sponsored every four years by British conglomerate B.C. Group, nearly drowned. She was more fortunate than a sailor who was lost at sea during the same race in 1986.

Naturally there are thousands of would-be Norman Vaughans and Helen Thayers dreaming of corporate-sponsored glory. "We don't have to look very hard anymore for sponsorship opportunities," says Beth Walkers, 3M's insulation products brand manager. She says she received

over 100 solicitations last year—most in search of free Thinsulate Insulation sleeping bags and camping gear.

So how do companies discern what's marketing gold versus financing some wacko's vacation? Blumenfeld adheres to a "So what?" rule. Among the recent rejects that failed to answer that question satisfactorily: a three-year, 186,000-mile motorcycle ride to represent the distance light travels in one second, and a four-wheel-drive road rally across Greenland.

Blumenfeld does hold out hope for

Maury Kravitz. A self-styled real-life Indiana Jones, Kravitz, 62, has spent the last 35 years studying Genghis Khan and 7 years trying to locate his tomb deep in the frozen steppes of Mongolia—and he finally thinks he's found it. The Mongolian government has given him the go-ahead, and Kravitz plans to lead an excavation team next summer. He's looking for more than \$7 million in sponsorship money. "Chicken feed," scoffs Kravitz. "I'll get more coverage than the Super Bowl." If he can unearth the great Khan, he probably will. ■



The ill-fated Hilton Earthwinds balloon prepares for liftoff
Betting on adventures is never a sure thing.

There's no telling
where the next
Fortune 500® leaders
will come from.

Who knows, one of these kids from Anchorage, Alaska may one day design a downhill ski that revolutionizes the sport. Or develop new aquaculture techniques to harvest bigger, faster-growing Alaskan king crabs.

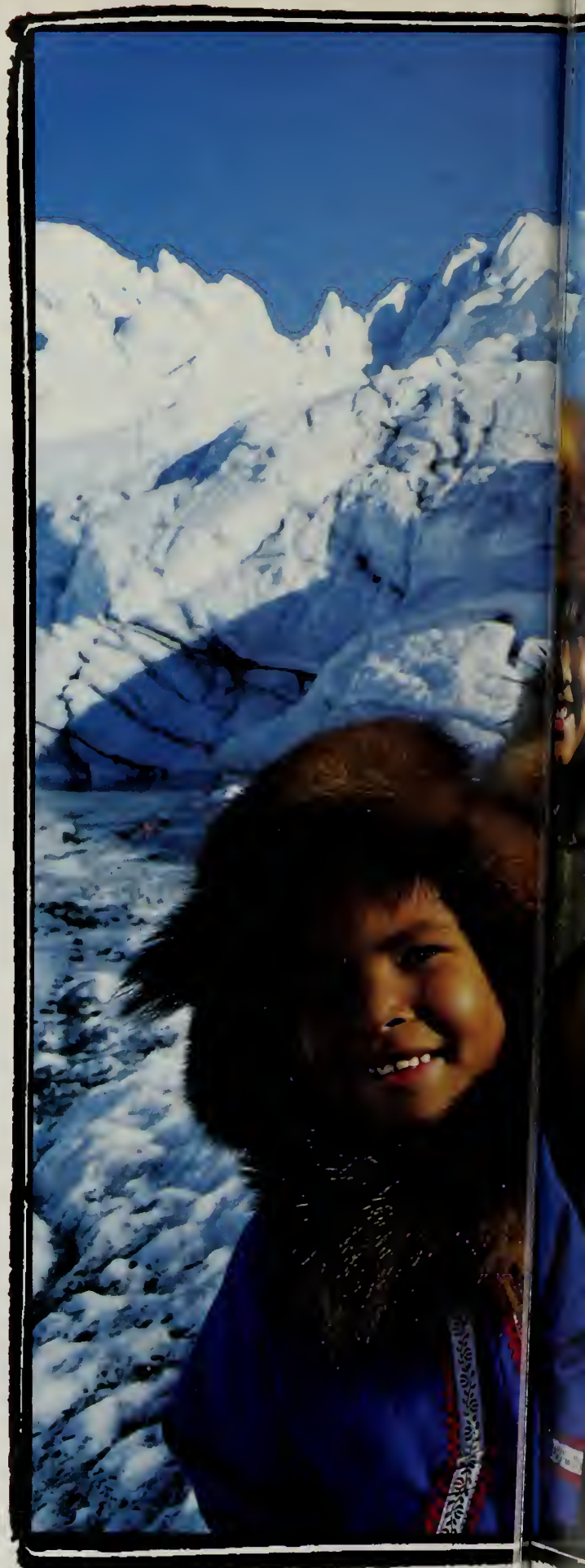
When that happens, they'll need more than just their vision to keep their companies strong. They'll need to manage a seemingly endless flow of information.

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Tomorrow's business leaders will come from anywhere, just as one of these children may one day pioneer a way to tap glaciers to irrigate the arid Southwest.

The right information technology, however, will not.



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Can you get rich off a 232-year-old mathematical equation? Some entrepreneurs specializing in computer encryption are going to try—if they can stop squabbling long enough to divide the spoils.

Patented secrecy

By Simson L. Garfinkel

IN 1763 a Swiss-born mathematical genius by the name Leonhard Euler came up with an equation that describes what kind of remainders you get when you divide whole numbers of a certain kind. For the next two centuries Euler's equation was the plaything of mathematicians—a starting point for academic researches into the abstractions of number theory. Then, in 1977, Euler's discovery turned into something extremely valuable in the commercial world. It became the basis of a system of encryption, that is, a technique for turning confidential messages into gibberish comprehensible only to the intended recipient.

Secret codes go back to the time of Julius Caesar, if not earlier; they have played an important role in war and diplomacy since then. But commercial encryption has gained new importance in the modern digital age. Encryption protects your password as it is transmitted from an automatic teller to a bank computer; it keeps crooks from stealing money by forging bank wire transfers; it enables television show owners to collect from people who own satellites; it may someday give rise to a thriving marketplace on the Internet. Encryption also makes possible virtually untappable phones—very useful to businessmen, frightening to law enforcers.

If computers create the demand for encryption, they are also the solution. To make a code uncrackable, or nearly so, you have to make it complicated. Cheap microprocessor chips are there to do the arithmetic. They can handle

the millions of calculations typically necessary to encode and decode a secret message on the fly.

The 1977 application of Euler's mathematics to encryption was the work of three professors at the Massachusetts Institute of Technology: Ronald Rivest, Adi Shamir and Leonard Adleman. Sensing the commercial

President James Bidzos of RSA Data Security

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import of their work, MIT patented their coding formulas. The university then licensed the patent to a newly formed company, RSA Data Security.

The beauty of the RSA coding scheme is a feature that Caesar would scarcely have imagined possible: a public key. The key is the formula that translates the plaintext message into the encoded gibberish. If, for example, your code moves every letter three places forward in the alphabet (so A becomes D and Z becomes C), then the number of places moved is the key. The key is at once an encoding and decoding device.

In conventional encryption, keys must be shared by the sender and receiver of the message, and they must be kept secret. That is the great weakness of conventional encryption: What messenger can be trusted? If he is compromised or his codebook stolen and copied, the code is worthless. In a digital/wireless age, this danger is immense.

In RSA encryption, the key that encodes is published for all to see, friend and foe alike. That key is creat-



Simson L. Garfinkel is the author of *Pretty Good Privacy: Encryption for Everyone* (O'Reilly & Associates, 1995).



Jimmy Omura, chairman of Cylink
If someone is eavesdropping, call him.

by the person who wants to receive confidential messages. A different key encodes messages, and this key is known only to the receiver. He calculates this key from certain arithmetic facts—he keeps to himself—without the published encoding key. The mathematics of this system is such that the public key gives no clue to how to construct the secret encoding key (see box, p. 124).

Besides keeping secrets secret, public-key cryptography will have another payoff within the next few years. This is the closely related technology of digital signatures. Simply stated, a digital signature is public key cryptography run in reverse. Instead of making secret messages, the math creates an unforgeable electronic seal that can be placed at the bottom of an electronic document. It could be anything digitized—a memo, a purchase order, a tax return, even a photograph. The seal can be used to check if a document has ever been modified since it was first sealed; it also proves the identity of the person who signed it—since only he or she would be able to make the seal.

Clearly, RSA Data Security has something extremely valuable in its encryption patent. But it does not

have this field to itself. Indeed, the MIT professors did not even invent the concept of public keys; that distinction goes to two other academics. Shortly before Rivest, Shamir and Adleman invented their system, Stanford professor Martin Hellman and graduate student Whitfield Diffie had published a different system of public key cryptography. Like MIT, Stanford knew it had something valuable, and won patents. It later licensed the patents to newly formed Cylink Corp. in Sunnyvale, Calif.

Cylink has used the Stanford patents to become, by its reckoning, the world's largest supplier of commercial secure communications equipment, with 200 employees doing sales of some \$30 million. "We had a customer who was bidding against foreign competitors for huge projects in foreign countries," recalls Jimmy Omura, 54, Cylink's founder and chairman. "They knew that their lines were being tapped because their bids were consistently underbid by a very small amount." Cylink's product put an end to the problem.

Rival RSA—headquartered a few

miles from Cylink in Redwood City—hired James Bidzos, a former international technology broker, as president and focused on selling algorithms to software companies. Bidzos, 40, is a good salesman. RSA encryption technology can be found inside more than 300 products, including Lotus Notes, Novell NetWare and Apple's Macintosh operating system. RSA employs 35 people and has annual revenues between \$5 million and \$10 million.

The federal government is in the middle of the fray. It wants to be able to receive E-mail that is secret and/or contains an unforgeable digital signature—think, for example, of tax returns. So Uncle Sam wants public key encryption to be widely available. But it doesn't want the technology to be too good. Terrorists and drug smugglers could use it to make their phones untappable.

It may be too late to put the genie back in the bottle. Already, for less than \$200 you can buy software that will turn a multimedia personal computer into an encrypting telephone that will thwart any eavesdropper, the FBI included.

Clearly there is a big business in encryption. What is not clear is who, if anyone, will collect the big royalties on it in coming years. To begin with, the MIT patent is an improvement on the Stanford ideas, muddying mathematical and legal waters.

Rather than fight, in 1990 Cylink and RSA pooled their patents into a partnership and went about their mostly separate lines of business, together telling potential users not to touch their patented technology

Uncle Sam doesn't want encryption to be too good. Terrorists could use it.

without a license.

The federal government, meanwhile, was getting very interested in digital signatures as a means of receiving official government filings. In 1991 the National Institute of Standards & Technology, an arm of the Commerce Department, issued its initial draft for a federal digital signature standard. Instead of using RSA

$$3^4 = 3 \times 3 \times 3 \times 3 = 81$$

$$3^4 \equiv 1 \pmod{10}$$

The key that locks does not unlock

PUBLIC KEY cryptography is a clever scheme for encoding secret messages with encryption keys that are known to the public.

Think of it this way. Anyone can send you a message in a locked box. Copies of the key that will *lock* the box are widely available. But once the lock is snapped shut, it takes a special key to *unlock* the box. The key that opens doesn't look anything like the one that locks. There is only one copy of the opening key, and you, the recipient, have it.

The first step in encoding a message is for the sender to convert it into a number. So, "Transfer \$10 million to my Swiss bank account" becomes a long string of digits.

Next, the sender raises this large number to an exponent. In the first equation on the blackboard above, 4 is the exponent. It means that 3 is to be multiplied by itself 4 times. In a real-life case, the message number—maybe hundreds of digits long—would go where the 3 is.

Now the sender does some modular—that is, remainder—arithmetic. To say that 81 equals 1 modulo 10 is to say that when you divide 81 by 10 you get a remainder of 1.

Why remainder arithmetic? Because it does such a wonderful job of scrambling numbers.

The public key consists

of two numbers—the exponent and the modulo.

The scrambled message that is sent along is the remainder—comparable to the 1 in this example.

Okay. We've now used encryption formulas known to everyone to scramble a message and send it to a receiver. How does the recipient read it?

The secret unscrambling key is another exponent. The message receiver calculates this exponent from some other, secret numbers. Lacking these numbers, a hacker would need thousands of years on a good computer to break the code.

Where does Leonhard Euler fit in? In 1763 he devised an elegant little equation about exponents and modular arithmetic. That equation is vital to calculating the decrypting key. We don't show the equation here, but it looks a lot like the second line on the blackboard.

Euler's math became useful for cryptography only with the advent of cheap, powerful computers. Without a computer, you can't do this kind of encoding or decoding. The computations are way too large. Indeed, even PCs need to take shortcuts. If they didn't, one of the numbers would be so large that its digits wouldn't fit into a computer memory the size of the universe. ■

digital signatures, which were becoming a de facto worldwide standard, the feds chose a new algorithm designed in secret by the National Security Agency, the spy agency headquartered at Fort Meade, Md.

Did the NSA algorithm infringe the Cylink/RSA patents? Federal officials said it didn't. But RSA's Bidzos, who also president of the Cylink/RSA patent partnership, argued otherwise. Anybody who used the NSA algorithm, he said, risked an expensive and lengthy patent litigation. But the partnership and Commerce came with a deal: Give the RSA/Cylink partnership an exclusive license for the NSA algorithm, and the partners will give the government free use of a license nongovernment users at more than \$1 per key per year, plus certain royalties on products using encryption. So if 10 million taxpayers had signed up for electronic filing of tax returns, the RSA/Cylink partnership could have raked in \$10 million in royalties.

At first government negotiators agreed to the deal, but after a torrent of public objections they decided private patent holders were asking too much. Last May the Department of Commerce declared the NSA formula was officially available, and in October said if anyone got sued using it to satisfy a government contract, the government would help defend the suit.

By then, long-simmering disagreements between RSA and Cylink boiled to the surface. RSA threatened to sue Cylink for patent infringement. In a preemptive strike last June, Cylink sued RSA, alleging that the patent is invalid. Now both are trying to have the partnership dissolved.

What if Cylink were right that the RSA patent is unenforceable? That would mean, retorts RSA's Bidzos, that Cylink is guilty of collecting patent license fees on a patent it believed to be invalid. "I think they have sunk their foot into something they're finding it very difficult to extricate themselves from," he says.

In the end, there is probably nothing to stop encryption of one software program from becoming ubiquitous in the computer industry. But it will be as lucrative to the original purveyors as it might have been.

APRIL 26, 1994. NELSON MANDELA called it a day like no other before it. Some called it a dawn. Because, for the first time ever, all the people of South Africa went to the polls to vote for a new government.

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election day. A task that once took six weeks, done in mere minutes.

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THEY REGISTERED TO VOTE.**

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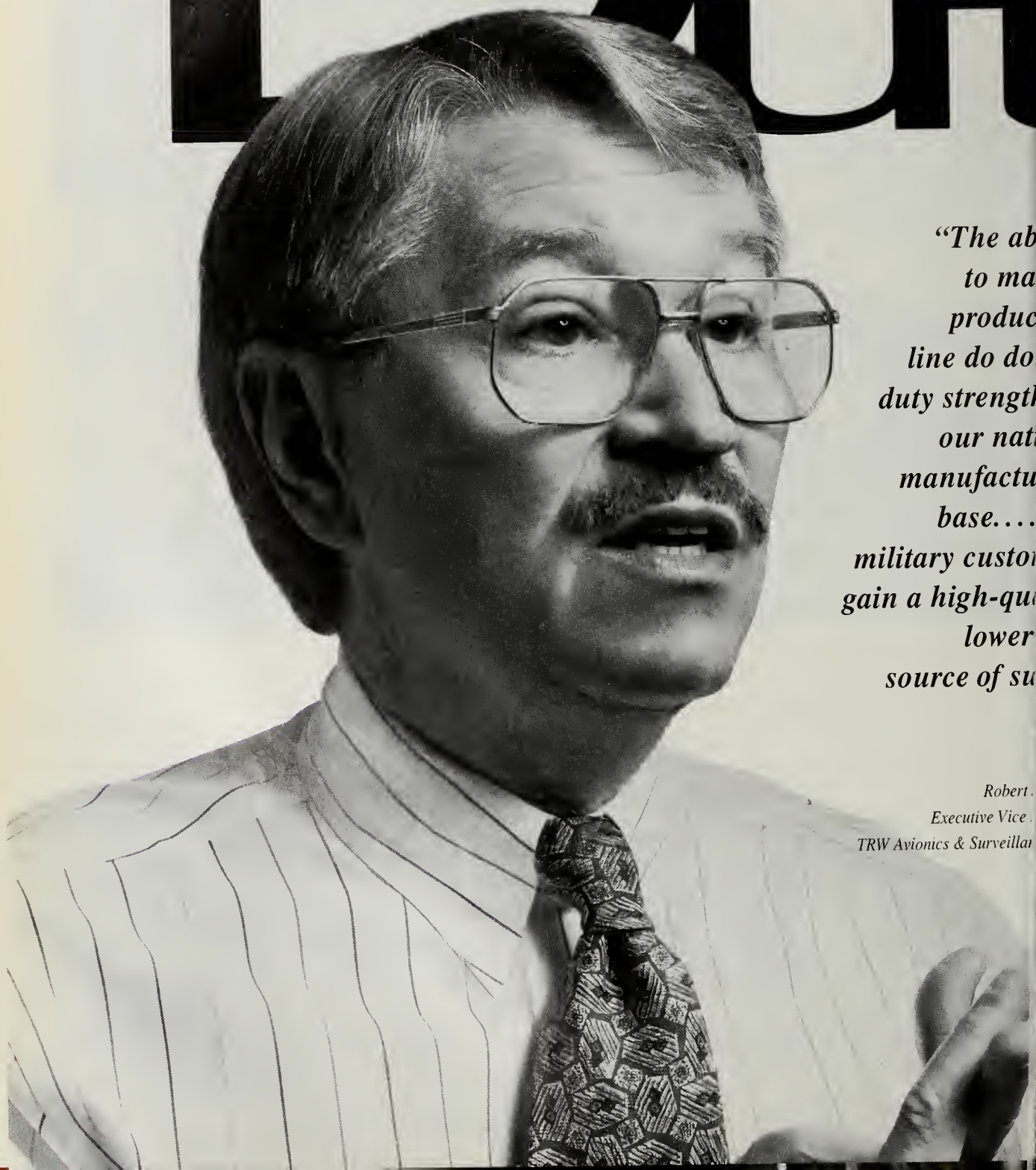
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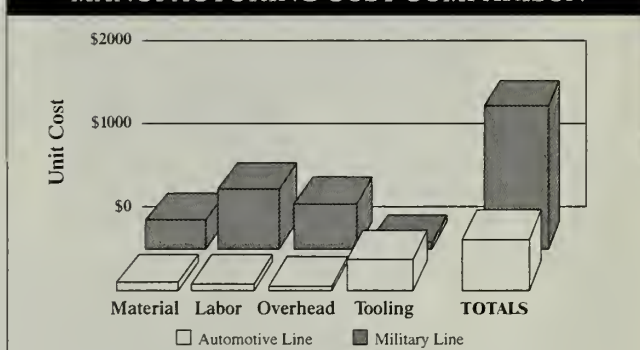
Most of the transfer of technology within TRW has been from aerospace to automotive. More than 200 automotive products have been advanced by TRW space and defense facilities. Today, technology is also being transferred in other direction. Aerospace products are benefiting from TRW automotive capabilities.

In one pilot program, military avionics and commercial electronics will be produced on the same production line. In this case, the transfer of technology means the sharing of the entire production process. TRW's aerospace and automotive engineers are working together to produce avionics modules that can be produced on automotive lines. This dual use of production facilities has the potential of reducing costs of military parts by more than 50 percent.

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Our Jan. 30 article on Internet hyperbole, "Where's the money?" attracted a floodlet of E-mail to author David Churbuck (dbuck@world.std.com). A sampling.

Internet: fans and flames



Sir: You make a mistake underestimating the value of the Internet as a communication tool. Or do you think it is not "yet time for the average insurance broker or freight forwarding firm" to own a fax machine?

Lately I have been bugging my stockbroker about why I can't E-mail him. He's always with a customer or on the phone. Why can't [brokers] get with it?

—Flint Harding III
Florence, S.C.
f.harding@genie.geis.com

Sir: I have only one friend over 25 who is on the Net. She's 26 and lives in Germany. She uses the Net to communicate with her friends and professional associates in the U.S.

The Net will start to take off once the under-25 population starts raising families.

—Robert Campanell
Austin, Tex.
robcamp@io.com

Sir: I agree with your slant on the Internet. You can't pick up any reading material without seeing something about it. Just like a high-tech CB radio. It would figure that FORBES would show it for what it is.

—William L. Jepsen
McHenry, Ill.
Jepsentire@aol.com

Sir: The utility of digital connectivity will eventually triumph, though, as you point out, just posting something on the current Internet and waiting for buyers to magically flock to your door is no different from opening up a store in a side alley and expecting to be discovered.

—Robert Frankston
Newton Highlands, Mass.
@frankston.com

Sir: When I joined the mailing list INET-L, all about marketing on the Internet, I asked the naive question: What are the skills people bring to this new medium? Not surprising to you, perhaps, but surprising to me, not a one cited any sort of avant-garde design training or experience. Instead, most of the companies I bumped into are led by people out of advertising or traditional graphics arts, probably the least likely types to succeed on any interactive medium of communications. Shocking.

—Bob Jacobson
Worldesign Inc.
Seattle, Wash.
Bob@worldesign.com

Sir: I find it interesting that for all the lip service you dedicate to technology, you still force readers to

send in letters to the editor via snail mail. I agree that the hype regarding Net commerce is premature, but really, FORBES needs to inch ahead.

—Marc F. Rogers
Portola Valley, Calif.
buckrog@ix.netcom.com

Sir: Internet is a lot of fluff, and a potentially serious threat to productivity. If I were running a large company, there's no way I'd allow unbridled access to it. It's like putting a television on every desk.

—John Foust
Syndesis Corp.
Jefferson, Wis.
76004.1763@compuserve.com

Sir: My first experience with the Net was as an M.B.A. in 1993. Since then, I've spent many hours lost in the black hole of the Net. Although there's an abundance of technical information available, there's little useful information for my work or studies.

When it comes to down-and-dirty research, the most productive time is still spent in the ol' library.

—James Carter
Jackson, Miss.
cartejh@okra.millsaps.edu

Sir: The audience is not yet acclimated to buying merchandise or information on-line. But all this will change in a couple of years, sooner than we think.

—Jeffrey Melin
Philadelphia, Pa.
jmelin@infomed.com

Sir: Even over the highest-speed link, it often takes 10 to 30 seconds to get a page. I'm not that patient, and I doubt many other consumers are.

—Scott Louis Byer
Mountain View, Calif.
byer@mv.us.adobe.com

Sir: This new medium will eventually evolve to find its own niche between mail order and QVC. Companies are still using the print medium: the paradigm for their selling efforts. That needs to change so that the electronic shopping place has its own identity.

—John Culter
Edina, Minn.
jculter@winternet.com



Meet the Face

Intel as conquistador

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

IT'S A NICE PROBLEM to have, but it's still a problem for Intel: The company is too successful. Where does it go from here?

Intel's position cannot improve because it already ranks first in microprocessor chips. So all of its competitive efforts amount to running in place. And run it does, driven by Chief Executive Andrew Grove's belief that only the paranoid survive.

Last year, for the third year in a row, Intel was the world's largest semiconductor company, and the first ever to sell more than \$10 billion in products. Even after a \$475 million pretax charge to cover the cost of replacing faulty Pentiums, the company netted \$2.3 billion. Intel processors run eight of every ten personal computers sold in the world; its closest rival, Motorola, accounts for fewer than one in ten. Yet Intel runs, looking over its shoulder all the while, and its competitive strategies reveal a lot about its power and about its prospects for staying number one.

So far other hardware and software platforms—including Apple Computer's Macintosh and the Unix systems based on reduced instruction set computing chips—are scarcely any threat to Intel-based computers. Apple has barely managed to hold on

to its market share in personal computers, and the RISC vendors are more threatened by Intel-based workstations than the other way around. Intel gets more competition from the Intel cloners: Advanced Micro Devices, Cyrix, Nexgen.

Intel's defense starts with its \$1.1 billion of research and development, enabling it to push customers into the next generation of electronic power as soon as the knockoff artists catch up with the old one. That R&D budget is more than the revenues of some of Intel's competitors. Intel spent \$2.4 billion last year to build and equip new factories.

At the Intel "architecture laboratory" in Hillsboro, Ore., engineers are trying to expand the market for microprocessors beyond personal computers to home entertainment centers and handheld communications gadgets. The architecture lab is

If the Pentium's successors swallow up nearby chips inside the PC, that's probably good news for the user.

also busy expanding the territory controlled by a computer's central processor.

The Pentium's successors will swallow up functions (like video, sound and telecommunications) now handled by nearby chips inside the PC. Makes sense; as often as not, the auxiliary chips are not made by Intel. Very bad news for other chip companies, but probably good news for the user, who will get a faster and cheaper multimedia box.

Another defensive bulwark consists of alliances. With Novell, Intel created a system to help users cope with complex networks of PCs. Intel helped Microsoft develop the "plug and play" standard that will make it easier to upgrade PCs with new attach-

ments. Other projects with Microsoft include systems for displaying video on a PC and connecting it to a telephone line. Perhaps Intel's most ambitious standard-setting effort of all is known as the Serial Bus. This is an effort to consolidate the spaghetti of cables and ports just inside the back of the PC with a single multipath connector. That wouldn't eliminate the mess of wires draped across the back of your desk, but it would lower the cost and increase the reliability of the computer.

Intel has teamed with Hewlett-Packard to develop future generations of microprocessors. The hope is that the two companies will be able to devise some new family of processors that have powers far greater than what might be done simply by extending today's designs but that manage, nevertheless, to be compatible with today's software.

Moving beyond chipmaking, Intel is invading the adjoining turf of PC making. It's a tricky business to compete with your customers, but Intel is running out of room for growth in chips. And so, for some smaller PC manufacturers, Intel now designs and builds everything from subsystems to complete machines.

If Intel achieves its ambitions, there is every chance that five or ten years from now it will still be number one in semiconductors, while the field of American competitors will be far smaller. It would be an ironic twist if U.S. semiconductor firms were to be done in not by the Japanese the once feared but by one of their own, although Intel would probably dismiss such concerns as paranoid. ■



Meet the Face of the Future Today!

Taking a page from medicine, engineers are using CAT scans to see inside machinery, especially machinery that might blow up.

Scanning for trouble

By Carolyn T. Geer

A CONVENTIONAL X RAY sometimes can't see the trees for the forest, which is why doctors love the refinement known as computerized tomography. CAT scanners, as they are called, reduce a bunch of X rays from different angles to a single cross-sectional image, where deep-buried problems—like a tumor or weakened artery—come clearly into view.

Now industrial-strength versions of these machines are helping engineers see around corners. Such second sight can save lives by finding a weak weld that might burst a boiler or an imbalanced turbine that might unspool its blades in a hail of shrapnel.

Leading the charge is Waltham, Mass.-based Arkwright Mutual In-

surance Co., which covers the equipment inside the likes of power plants and pulp mills. Insurance companies would rather fend off disasters than pick up the pieces afterwards, and CAT scans are turning into a surprisingly useful tool to that end. "This is exciting stuff," effuses William Poutsia, Arkwright's chief executive. "You can take existing technologies where billions have already been spent on R&D and, with some creative engineering,

transform them into tools that prevent losses." Two years ago Klaus Ullmann, Arkwright's chief engineer, stumbled across a small research outfit in Austin that had invented a deeply penetrating CAT scan to inspect steel tubing as it rolled off the assembly line. The company, Integrated Diagnostic Measurement Corp. (IDM), was also working with a nearby utility that wanted to inspect high-pressure steam pipes. Conventional inspection methods like ultrasound cost \$1.5 million and take 8 to 11 weeks. IDM's method took just 4 weeks and cost \$800,000. Arkwright brass liked IDM so much they bought it.

IDM's founder, Ira Morgan, is a

nuclear physicist who has been researching industrial uses for CAT scans for two decades. Along the way he's scanned artifacts for the Smithsonian Institution, including a Mayan urn, a Stradivarius violin, a Ming dynasty doorknob and an Eskimo totem pole.

Perhaps most intriguing was Morgan's assignment ten years ago to build a scanner for General Motors engine-block plant in Defiance, Ohio. GM says it uses the machine to scan for casting defects. But the same machine could also be useful for looking inside a rival manufacturer's product. "You could find out how a competitor makes its parts, and do it without even cutting them up," says Morgan.

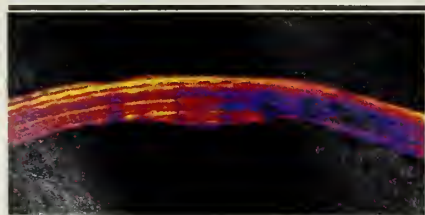
It takes more than X rays to scan a hunk of metal. IDM uses gamma rays—higher-frequency radiation emitted from the nucleus of radioactive materials, such as cobalt and iridium. At 1.25 million electron volts, a gamma ray photon is four to six times as powerful as the photons of X rays used in medicine. The high-power rays can finger a microscopic crack through more than 10 inches of solid metal.

IDM's machine passed muster in tests on the now-canceled Superconducting Supercollider and at a Texas Utilities Electric plant. One problem is its size. The so-called mobile unit requires an overhead structure to suspend its nearly 2 tons of weight. On the drawing board is a more portable version weighing 500 pounds.

Meanwhile, IDM has come up with a handheld backscatter gauge that works on the same principle. While the CAT scanner takes 360 measurements around an object to record its shape and thickness throughout, the backscatter unit takes just one measurement at a time, revealing the object's thickness at that point only. For many applications, that's all you need.

Recently, at New England Electric's power plant in Salem, Mass., Arkwright tested the gauge on 11-story-high boiler tubes. The backscatter makes sandblasting unnecessary and saves the utility \$140,000.

Arkwright believes its backscatter gauge could also be used on decaying infrastructure. It's talking with the Department of Transportation about testing bridges to see if metal girders are corroding under decades-old layers of paint.



Scan showing crack in welded steam pipe (above); prototype of mobile CAT scanner

How engineers see around corners.

Insurance Co., which covers the equipment inside the likes of power plants and pulp mills. Insurance companies would rather fend off disasters than pick up the pieces afterwards, and CAT scans are turning into a surprisingly useful tool to that end. "This is exciting stuff," effuses William Poutsia, Arkwright's chief executive. "You can take existing technologies where billions have already been spent on R&D and, with some creative engineering,



Arthur Meyerson



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Surgeon's helper

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is a portfolio manager. His forthcoming book on investing in technology stocks and funds is *The Market that Beats the Market* (Little Brown, 1995).

TWO GOOD STRATEGIES for technology investors: Buy a technology after Wall Street has already soured on it; buy it obliquely, not head-on. A rather obscure medical equipment firm, Steris Corp., illustrates both of these principles.

The technology in question is endoscopic surgery. This is a way to do a gall bladder removal or knee or abdominal operation with a minimum of cutting. The surgeon operates by remote control, with instruments inserted through a half-inch incision in the body. A miniature video camera, at the end of a fiber-optic stalk inserted through the same small opening, allows the doctor to see what he is doing. Patients recover much faster than they would with traditional big-incision surgery.

The technology turned into a fad on Wall Street in the early 1990s, with stocks like U.S. Surgical, Laserscope and Surgical Laser doubling or tripling in the space of a year. Then came the inevitable crash. U.S. Surgical, for this and other reasons, is now trading down 82% from its high near 136. Perhaps the field is worth a second look now.

Prices appear weak, but the difficulty is in finding a stock that can capture a major percentage of growth in the whole field of endoscopy. It is an important trend in medicine. Within five years 50% of all general surgical procedures will be performed using these techniques.

Turn now to the second principle:

oblique investing. This is the instinct that tells you, when a technology is catching on, to avoid the obvious suppliers of that technology and look to ancillary firms. At a time when IBM personal computer clone manufacturers were first hot on Wall Street, for example, the oblique investor would have ignored the lot of them and bought stock in the firm that made all of their microprocessors: Intel.

Steris Corp. is an oblique play on endoscopic surgery. This company doesn't make endoscopes. It makes machines to sterilize endoscopes.

It is an easy and sure procedure to clean and sterilize conventional surgical instruments with a pressure cooker called an autoclave. Inside, the temperature ranges from 250 degrees to 275 degrees Fahrenheit. If you run an autoclave for the recommended time,

Oblique investing: You don't buy the suppliers of a hot technology, you buy the ancillary firms.

you know the result. The bacteria and viruses are dead. There is no place in a steam sterilizer for a germ to hide.

With the new endoscopic surgery, however, comes a new problem. Endoscopes should not be subjected to temperatures higher than 140 degrees Fahrenheit. They are made from tiny electronic parts, optical fiber, plastics and special adhesives. Autoclave one and you have ruined it. A new instrument costs \$35,000 to \$50,000.

For this reason, endoscopy devices are sterilized with chemicals instead of heat. This works, but the problem is, you must somehow control and monitor the chemical sterilization process in such a way that you *know* it has worked. This is more complex than just turning on a pressure cooker.

If you are using chemicals, there are questions of concentration, exposure times and bacterial resistance. In short, chemical sterilization involves doing chemistry. It requires the atten-

tion of trained people—and the time. Given the risk of litigation against medical professionals, it is wise to document the sterilization process in some way. This is difficult with a manual, chemical sterilization procedure. The chemicals used (glutaraldehyde and ethylene oxide, primarily) are noxious.

Finally, the hospital may have a urgent need for the endoscope. There is no time for a long sterilization process. Because the scope represents such a large capital investment, the hospitals cannot stock drawers full of extras as they do with traditional surgical instruments.

Find a need and fill it. Steris Corp. of Mentor, Ohio received federal approval for a small, fast, "smart" chemical sterilizer for endoscopes in late 1988. It started selling the machine

in 1989 and has sold 5,000 to date, about \$16,000 apiece. The world market is estimated at 135,000 units. Steris also does a nice business selling \$5 refills of the sterilizing chemicals. It netted \$7.7 million last year on revenues of \$59 million.

The Steris sterilizer kills bugs in 15 minutes. With just two endoscopes a surgical team can alternate, keeping one scope in use and the other in the Steris machine—and keep on working all day. The machine fully automates the chemical sterilization procedure and prints out a record of each run.

Understand this: Although the endoscopy plays in endoscopic surgery are looking cheap now, Steris is not in the bargain basement. The company went public at 7 in June 1992 and has climbed steadily to a price of 31, or 10 times trailing earnings of 83 cents per share. This young company already has woven its machines and products into its customers' work lives. It is buy at or below 28.

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Some business folk travel these days loaded down with electronic gear. Others just sit and think.

Curious customs among the road warriors

"I was on a flight to Charlotte, and it was the first time I really noticed how many people have laptops with them. The first guy I saw with a laptop was playing solitaire. The second guy was playing solitaire. The next two guys were playing some sort of Sega Genesis street fighting game. This is the I-way?"

—author Tom Wolfe

Tom Wolfe is an acute observer of our folkways, but lots of people have figured out how to convert travel time into work time, not play time.

That's what we learned in a FORBES-conducted survey of busi-

nessmen and women who have to work when they travel. What we also learned is that there are different styles among road warriors.

William Savoy, president of Vulcan Ventures Inc., based in Bellevue, Wash., is a heavy-weapons carrier. The personal finance manager is on the road a third of the year, and travels loaded for bear. His impedimenta weigh in at over 10 pounds, including spare batteries.

Key to his arsenal is a Texas Instruments TravelMate 4000 notebook—with full-color monitor and extra

memory. It's loaded with software that lets Savoy, even while airborne, tap into the financial markets (Bloomberg Information Services) tie into his own office for E-mail and other files. That's provided, of course, he can use a phone. So he prefers carriers that have plenty of air phone, such as United Airlines, Alaska and Northwest.

For a sidearm, Savoy carries a pocket-size personal data assistant, or PDA. He uses Sharp's Wizard, in which he keeps his appointments calendar, his contact database. "It's easier to open a 3x5-size thing to search for a name than to boot up the computer," he says.

Also in his kit bag is a Sega Game Gear machine, on which Savoy tests new releases to gauge their commercial success (cartridges such as *Sonic the Hedgehog*, the *Lion King* and *Aladdin*).

When he hits the ground, Savoy reaches for his cellular phone, a Motorola flip-top, and checks his alphanumeric pager.

Savoy used to carry a Sony Discman, but it added to airport delays. "At security I have to turn on the pager, open the laptop, turn on the cellular phone and turn on the hard drive. If I have to show that the laptop works, I'm with the guard for 15 minutes."

Unlike the heavy-weapons carrier like Savoy, a larger group manages to work with only minimal hardware.

Myrna Blyth, editor-in-chief of *Los Angeles Times*, takes along an Apple Powerbook only if she's on the road. Usually she'll just take printed files, the road, to edit by hand.

While traveling, Jonathan Gunderberg, director of new media for the phonograph company, tries to get his work done without electronic assistance, including writing notes and doing work that is not computer-dependent. "The weight tradeoff is always there," he says, although he has a fully loaded NEC laptop ready when he needs it.

Peter Gilbert, second vice president of the New York-based College Retirement Equities Fund, manages money invested in South America, Canada, South Africa, Australia, New Zealand. He discovered Hewlett-Packard 200LX pa-



Illustrations by Brian Alper



computer, which, coupled with Acc Technologies software, can carry all the same data and spreadsheets as a laptop, and act as a satellite for office desktop.

Los Angeles-based sports agent Bob Reich uses lots of equipment but no laptops. Reich is a telephone man. "On coast-to-coast flights I'm usually on the phone about an hour." He says flying first class pays off for him because the seats are usually provided with seat phones.

Reich also travels with not one but two cellular phones, for when he's on the go. One, for use mainly on the East Coast, is an Audiovox MVX-700 weighing only 6.2 ounces and is billed at \$9.95 a month from Pittsburgh. The Motorola MC 950, for West Coast calls, weighs about a pound and is billed at \$14.95 a month from Los Angeles. Reich carries two car chargers for these cellular phones.

Reich also totes his own cordless phone, a Motorola for use in hotel

rooms. "I like to pace when I talk," he says. So he hooks up the cordless to the hotel line.

On long trips, he brings a telephone answering machine.

Robert Crandall, chairman of AMR Corp., parent of American Airlines, usually takes paperwork with him on flights. But Crandall doesn't diddle with a laptop—on board or on the ground.

Nor does Herb Kelleher, chairman of Southwest Airlines, who also sticks to paperwork while flying. Likewise Donald Trump, who used to own his own airline and still spends a lot of time in the air. "Being on a plane is one of the greatest places ever to do paperwork. Generally, you can't be interrupted," he says.

Some other tips from veteran road warriors on how to turn that travel time into money:

■ Carry a shortwave radio—which is small and lightweight. It's handy for getting news while abroad and for

getting a foreign perspective. One respondent cites another reason: "It helps me with my Spanish."

■ Write thank-you notes. "I take a bunch of them, already stamped, on the plane. You can write, seal and then mail them upon arrival," says one sharpshooter. "It's gotten me a lot of business, because no one writes thank-you notes anymore."

■ Pray. Business broker Fred Zirkle, based in Spokane, Wash., stores the King James Bible and the Book of Mormon in his Toshiba T1950CS notebook computer.

■ Think. "When I'm not using phones, I'm just thinking," says sports agent Reich. "Thirty-two thousand feet is a good place to think about strategy."

Gabby neighbor keeping you from business? Here's mortgage broker Christopher Cruise's suggestion: "Just keep saying, 'Huh? huh? huh?'" He insists it works. —W.G.F. and VICKI CONTAVESPI

More families own pianos than play them.
Modern electronics can make them live again.

Play it again

By Marla Matzer

THE PIANO is still the most popular musical instrument in the U.S., good for about \$800 million a year in annual shipments.

Yet the piano is more than a musical instrument: With a good Steinway grand running \$60,000, it's an investment. And, at up to 9 feet long, it's a major piece of furniture. But it's something more. It's a mood.

"People fantasize that buying a piano will give them some Victorian

ideal of life, with the family gathered around together," says Leopold Holder, president of Manhattan's New York Piano Center. "It's a totally emotional purchase."

There is something about the quality of sound produced by a classic piano that assures its survival even if there's no one around who plays the thing. Does that make it merely decorative? No. You can buy modern play-

that will recreate works by the great masters.

Want George Gershwin to play his "Rhapsody in Blue" for you? Yamaha sells a diskette (\$35), made from an old paper roll for a player piano, originally recorded by Gershwin himself.

The instrument has a long and rich history. The modern piano became widely popular in the Victorian age, but keyboard instruments had been favorites for several centuries. There were clavichords, harpsichords and virginals of all sizes.

The 1700s and early 1800s were the heyday of the harpsichord. With its quill-plucked strings and its bright, unvaried tone, the harpsichord was limited in dynamic range. Sir Thomas Beecham once likened its sound to that of two skeletons copulating on a tin roof.

Introduced in the early 1700s, the



Rob Kinnear

Leopold Holder of the New York Piano Center regulating the action of a Steinway grand. **They're high ticket and high maintenance, but pianos are still America's favorite instruments.**

piano was far more versatile. Originally called a pianoforte (soft-loud), its loudness could be regulated, and its strings were struck with hammers, creating a clear, strong sound. It's a sound that has been resonating in the human spirit ever since.

The piano took its present form (4½ octaves, cast-iron plate) about 10 years ago. Pre-1850 pianos are mainly of interest as furniture, not as musical instruments. "People want them for the cabinetry and for the history they represent. They're rarely bought to be played," says Albert Eckham, an appraiser for Butterfield & Butterfield's auction house in Los Angeles.

Auctions of these older types of pianos are held at Sotheby's in London every autumn. "Condition is all-important," explains Graham Wells, Sotheby's head of musical instru-

Modern pianos, since they're more likely to be bought to be played, are most valuable if they're in perfect condition. Some buyers prefer post-World War II models, because they're more likely to be in top form; others swear by pianos made from 1900 to 1940. The most sought-after names are Steinway (made in the U.S. and Germany), Bechstein (German-made) and Bösendorfer (Austrian).

There are other factors that can make a piano valuable—including provenance. Two pianos owned by Liberace sold for \$25,000 each at auction in 1988.

For a while in the 1970s, it appeared that the old, classic piano would face a serious challenge from electronic keyboards. But the jangly sound they produced had limited appeal, and sales of portable keyboards and synthesizers have fallen by more

Classic acoustic pianos still outsell all other kinds, but even here electronics is now playing a role. Austria's Bösendorfer, now owned by Jasper, Ind.-based Kimball International, was the first great name to introduce disk-driven player pianos (*FORBES*, Sept. 4, 1989). Its SE series pianos can be played normally. The series can also be played—and even record—via floppy disk. But they are well beyond the reach of most people, priced at \$145,000 to \$230,000.

If you want electronic features but don't want to spend that kind of money, there's Yamaha's Disklavier. Last year the Disklavier accounted for 29% of Yamaha's acoustic piano sales. It performs most of the same functions as the Bösendorfer SE, but the cost is \$9,000 to \$40,000.

Last year Yamaha introduced its Silent Series, acoustic pianos that can



Antique pianos are valued as furniture, not instruments
This 1785 "side table" pianoforte fetched \$51,000 in 1994.



The Yamaha Disklavier, a \$25,000 electronic player piano
The disk and controls are under the keyboard at right.

ments. "But it's almost better for an instrument to be a bit of a wreck than to have been restored in an inauthentic way, as many pianos were just a few decades ago."

At Sotheby's 1994 auction, the highest price paid for a piano was \$1,000, for an unusual 1785 pianoforte in the form of a side table, in beautiful condition. A stunning 1802 Broadwood pianoforte brought \$5,000. But prices generally were lower. A number of square pianos, which were the U.K.'s common equivalent of uprights in the 1800s, did not sell at all.

than 50% over the past ten years.

However, the new breed of digital electronic piano, which replicates the sound of an acoustic grand, has gained ground. With no strings—just a computer mechanism—the digital piano is smaller and lighter than the traditional piano. It's also cheaper. An average-price digital costs about \$2,500, against \$3,000 for a low-end upright piano.

With the digital pianos you can buy software to help you learn to play or compose on the piano; many also record, shift into different keys or mimic other instruments.

be played normally, or silently when headphones are plugged in. Cost: \$9,000. A piano combining the self-playing and silent-mode technologies—the Silent Disklavier—is currently in the works.

Do you have a piano at home that goes unplayed? If it is just collecting dust and photo frames, look into the PianoDisc. The Sacramento, Calif.-based company makes systems and software to convert acoustic pianos into self-players. The conversion costs start at \$4,500, including pickup, installation and delivery (call 800-566-3472).

Ambitious young people are skipping rungs on the career ladder by doing internships overseas.

"I definitely leapfrogged"

By Brigid McMenamin

AFTER A ONE-YEAR master's program at Harvard's Kennedy School of Government in 1990, social worker Jerome Madigan, then 30, took a summer job. He planned spending a couple of months in Warsaw with a United Nations group advising Poles on how to cope with a developing market economy. That little fling changed his life.

Fascinated with life in an evolving society, he stayed on to work in the Polish privatization program. In 1991 Price Waterhouse hired him as a consultant to help auction off over 30 glass companies, including Sandomierz, which Pilkington and others snapped up for \$170 million.

Madigan had become an expert on privatization in former socialist countries. He was soon working for Price Waterhouse in Ukraine and later in Tashkent, Uzbekistan. This year, at 35, Madigan returned to the U.S. as a manager with Price Waterhouse's International Privatization Group in Washington, D.C. "I definitely leapfrogged," admits Madigan.

Robert Carter had a similar experience. A former bank credit analyst, he was studying at the University of Houston for an M.B.A. in 1992 when he learned that the Institute for International Education was recruiting first-year students to work in developing countries.

The institute selected 16 students, and the U.S. Agency for International Development put them to work in places like a brick and tile company in



Botswana, a condiment company in Dominica, a seafood exporter in Gambia, a glassmaker in Guatemala and a furniture company in the Philippines.

Carter went to Nepal to help start a new bank called National Finance. Carter, then 29, analyzed the commercial banking market, produced a business plan, set up a computer system and helped train local workers. Carter returned to Houston to finish business school and look for a job.

Which didn't take long. On the strength of Carter's Nepal experience, Tenneco snapped him up to analyze opportunities in Chile, Argentina and the South Pacific.

Because international experience makes job candidates more salable, Arizona's American Graduate School of International Management (known as Thunderbird) and Wharton's Lauder Institute encourage overseas internships. When Claire Gaudiani left the Lauder Institute to become president of Connecticut

College in July 1988, she decided to make foreign internships part of the liberal arts program.

Selected students learn a foreign language, master the history, politics and economics of a region and create a research project connected with that region. Connecticut College helps them line up an assignment abroad.

In 1991 Connecticut College economics major Kevin Dodge worked at Salomon Brothers AG in Frankfurt, Germany doing research in mergers and acquisitions. "I grew a lot," says Dodge, who graduated in 1992. He credits the experience with helping him land a job doing private placements at Barclays de Zoete Wedd. When his boss moved to UBS Securities, Dodge was one of the few he took along.

Other colleges, from Notre Dame to the University of Cincinnati, now offer similar work opportunities.

Interested in gaining experience, or do you know someone who is? These organizations can help:

Association for International Practical Training (AIPT), 10400 Little Patuxent Parkway, Suite 250, Columbia, MD 21044-3510; 410-997-2200; 410-992-3924 (fax).

Association Internationale des Etudiants en Sciences Economiques et Commerciales (Aiesec), 135 W. 50th St., 20th floor, New York, NY 10020; 212-757-3774; 212-757-4062 (fax).

Institute of International Education, Free Market Development Advisers Program, 1400 K St. NW, Washington, D.C. 20005-2403; 202-962-8835; 202-962-8834 (fax).

International Association for the Exchange of Students for Technical Experience, 10400 Little Patuxent Parkway, suite 250, Columbia, MD 21044-3510; 410-997-3068; 410-997-5186 (fax).

MBA Enterprise Corps, CB 3440, University of North Carolina, Chapel Hill, NC 27599-3440; 919-962-2682; 919-962-2784 (fax).

If you line up a foreign internship on your own, the Council on International Educational Exchange (212-661-1414) will help with arranging for work permits.

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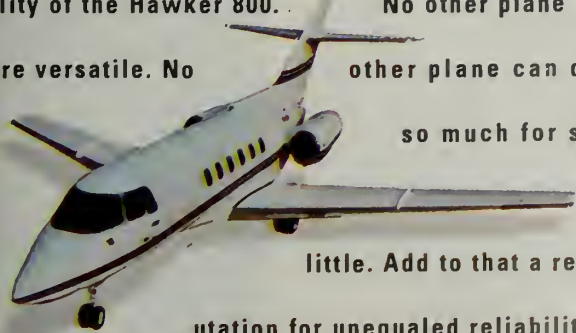
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4. Astra SP	6	7.5	4. Astra SP	430	7.1
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		RATING			RATING
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2. Citation VII	1231	8.1	2. Hawker 800	2415	9.7
3. Learjet 60	1200	7.9	3. Learjet 60	2114	8.5
4. Astra SP	1060	7.0	4. Citation VII	1608	6.4
SPEED (MAX)			OPERATING COST (U.S. \$) (HRLY)		
		RATING			RATING
1. Astra SP	463	10.0	1. Astra SP	947	10.0
2. Citation VII	462	10.0	2. Hawker 800	1013	9.3
3. Learjet 60	453	9.8	3. Learjet 60	1055	9.0
4. Hawker 800	442	9.5	4. Citation VII	1068	8.9
ACQUISITION COST (U.S. \$) (MM)			UTILITY INDEX/OVERALL RANKING		
		RATING			RATING
1. Astra SP	8.35	10.0	1. Hawker 800		66.9
2. Learjet 60	9.10	9.2	2. Astra SP		61.6
3. Citation VII	9.93	8.4	3. Learjet 60		59.4
4. Hawker 800	9.95	8.4	4. Citation VII		57.9

Source of data from Business & Commercial Aviation 1984 Planning & Purchasing Handbook and Conklin & de Decker Associates, Inc.



Fairfield bound?

DEBORAH COLEMAN has never been modest about her ambitions. Coleman, chief financial officer of Apple Computer by 34, told a reporter in 1986 what she really wanted to do was run General Electric someday. Her car even briefly sported a license plate that read GECEO2B.

But for now, Coleman, 42, must be content to run Merix Corp., the Forest Grove, Ore.-based Tektronix spinoff that makes circuit boards. After 11 years at Apple, Coleman

took the helm at Merix last March.

Merix should ring up some \$100 million in sales its first year. Since the company went public in May, its stock has risen 150%, to 22½, making Coleman's 5.5% stake (including options) worth \$8 million. Within five years she hopes Merix will be the first \$500 million company in its industry.

After that? "I think I'd certainly be a candidate to run a much larger corporation," she says.

In Connecticut, perhaps. —KERRY A. DOLAN



Merix's Deborah Coleman
Building the resumé.

Rescue mission

BACK IN 1979 Vern Raburn was the first president of Microsoft's consumer-product division, at 28. Bill Gates was best man at Raburn's 1986 wedding.

Now after a 12-year hiatus at Lotus and Syman-tec, Raburn, 44, is back in the fold. Last year Raburn became head of Paul Allen Group—the management company for the Microsoft cofounder's investments in 22 high-tech firms. "What really drives this is deciding where we'll be in ten years and what technology will be doing," says Raburn.

His job: integrate services and products.

It won't be easy. Since FORBES last profiled Allen (*July 4, 1994*), Virtual Vision filed Chapter 11. And Allen sold off his remaining 18% stake in America Online, which adopted a poison pill.

So Raburn is trying to turn around multimedia software developer Asymetrix by cutting the work force by a third. And he's talking to Microsoft about putting Starwave, a producer of CD-ROMs and on-line services, on Gates' planned online network.

—STEPHEN S. JOHNSON



Alexander Mares-Mention

Vern Raburn of
Paul Allen Group
**Running with the
Microsoft crowd.**

DNA buster

WITH A MANDATE to find cancer treatments, one of French pharmaceutical giant Rhône-Poulenc Rorer's rising young stars is now in the U.S. to do just that.

Thierry Soursac, an oncologist with a Ph.D. in pharmacology and an M.B.A., heads up RPR's new Gencell division. Based in Collegeville, Pa., Gencell includes a consortium of 14 biotechnology companies and labs working to bring gene and cell therapy to market.

Soursac, 37, made his mark at Rhône-Poulenc with Lovenox—used to prevent blood clots—which last year was the firm's bestselling drug, with \$200 million in sales. He was promoted to head of worldwide marketing for RPR in 1990.

At Gencell, Soursac has already shelled out \$135 million of Rhône-Poulenc's money for equity and rights to the technologies

the 14 groups are developing. Clinical trials on six products are already under way. Soursac is hopeful the unusual group effort will soon produce promising results.

"This is a revolution," Soursac says. Who better than a Frenchman to know one.

—PHILIPPE MAO



Gencell's Thierry Soursac
**Leading another
French revolution.**

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ber the Mexican economy was fundamentally sound. What the Administration doesn't say—and perhaps can't grasp—is that this currency crisis was unnecessary.

It was easily avoidable. In fact, the devaluation can be reversed—and must be reversed.

The Mexican government had been making enormous economic progress since the mid-1980s.

■ Inflation had been reduced from 200% to under 10%.

■ The peso's value had become relatively stable against the dollar.

■ Interest rates had been brought down substantially.

■ The Mexican government's budget had been balanced—something the U.S. hasn't done in 25 years.

■ Mexico's national debt had been slashed. As a percent of the economy, Mexico's national debt is far lower than that of the U.S.

■ Income tax rates had been cut, and tax revenues had increased.

■ Capital flight had been reversed to capital inflow. For several years, Mexicans had been repatriating money. Right through October 1994, foreign inflows had been more than adequate.

■ Imports had grown in the way that they should grow. Imports were primarily made up of capital goods and economy-building products and services.

■ The trade deficit? Mexico's was large, but that is not unusual for developing countries. In most cases, trade deficits go hand-in-hand with development.

The United States, for example, had trade deficits for its first 100 years. Japan had trade deficits in the 1950s and early 1960s. South Korea had trade shortfalls in the 1960s and 1970s. More recently, impressive economies

such as those of Malaysia, Thailand and the Philippines have had large trade deficits.

Mexico's major mistake was that it didn't tighten up on money in 1994. The U.S. was raising interest rates, which meant that Mexico had to raise its rates. Moreover, there was considerable political turmoil—uprisings and political assassinations. It was an election year. Mexico was printing too many pesos. Mexico

wasn't the first country, and probably won't be the last, not to carry out good monetary policy during an election year. But the mistake wasn't catastrophic and could easily have been reversed. The solution was—and is—basic: Tighten up on monetary policy.

How? The traditional, old-fashioned way. The central bank should soak up excess pesos by selling off assets such as government bonds. The Federal Reserve does this all the time. So do other central banks. There's no rocket science involved.

Would interest rates have gone up? Yes. At the beginning of 1994, short-term interest rates in Mexico were around 10%. By December they were 14%. If Mexico had tightened as it should have, interest rates might have hit 18% to 20%. But these rates would have been temporary until Mexico sopped up those excess pesos.

Instead, Mexico was advised by its own ministers, the U.S., the IMF and others to partake of the most seductive, destructive of economic drugs—devaluation.

The results were catastrophic. Short-term interest rates are now approaching 40%.

It was as if a patient had a sprained ankle and were advised by misbegotten physicians to have his leg cut off.

Why the devaluation? The real villain is bad economic theory, a theory that holds sway not only in Mexico but also in the U.S., with the IMF, the Federal Reserve and others. The theory says that devaluation will make your imports more expensive and your exports cheaper. This will give you a trade surplus which will help your economy. That's the theory. The reality is uglier. The result is higher inflation and higher interest rates. The economy contracts. The price of capital goes up. Investors lose confidence because of the increased risks. There is less capital available. In Mexico, for example, the stock market has plunged by 43%, a crash of 1929-like proportions. Living standards have fallen. The Mexicans have suffered the equivalent of a 40% cut in pay.

The blunt truth is that countries with unstable money, funny money, grow less economically, make less progress than countries with sound money.

The consequences of this devaluation crisis for Mexico are inflation and economic stagnation. There will be a political price as well. Mexico has an emerging middle class that was anticipating better times after the economic horror of the 1970s and the early 1980s. Instead of moving ahead, these people now face financial ruin. The newspapers are full of stories of Mexicans no longer able to meet mortgage payments or car payments. It is estimated that

**MSF Jr. with
Committee
Chairman Jesse
Helms and
William Seidman.**



AP/Wide World

up to one third of Mexico's small businesses will be bankrupt by year's end.

For the United States, there will be fewer exports to Mexico, probably \$10 billion to \$15 billion less than there would have been otherwise. These lost exports will cost us at least 100,000 jobs. There will be social and political fallout as well—millions of desperate Mexicans will try to cross our borders.

This is important to understand. If the devaluation is not reversed, if the rate of 3.5 pesos to one dollar is not restored, we will have fewer exports to Mexico, and we will experience a surge of illegal immigration.

What's to be done? The surprising fact is that this devaluation is easy to reverse. We can go back to a rate of 3.5 pesos to the dollar.

Mexico now has lines of credit so it can amass enough money to buy up its entire monetary base (a monetary base is composed of currency in circulation and bank reserves). Mexico's monetary base is now less than \$16 billion.

The current peso price anticipates that the government will go on a peso-printing binge. But this hasn't yet happened on the scale the markets are now anticipating. It is still possible to restore the status quo ante.

Thus, the solutions suggest themselves:

1. The Mexican government must fix the peso at a 3.5-to-1 ratio.

2. The Mexican government should buy up enough pesos to arrive at that rate by mobilizing its credit lines, government bonds and any assets it receives from selling shares of state-owned companies. Once the markets realize that Mexico and its partners are truly serious about restoring the peso's integrity, the peso will quickly soar in value.

3. Mexico should establish a currency board along the lines of Argentina's. In Argentina no pesos are issued unless they are backed by gold or by dollars. In 1990, the year before Argentina enacted its variant of a currency board, the country had experienced inflation of 2,300%. Today Argentina's inflation rate is under 4%. The government budget is balanced. Taxes have been cut, and internal obstacles to economic growth are being removed. In the past four years, the Argentine economy has experienced an average annual growth rate of 7%. In Mexico the central bank only releases its reserve figures three times a year. In Argentina, by contrast, those reserve figures are published every day. Hong Kong also has had great success with its currency board. Lithuania and Estonia have recently established currency boards and have achieved a monetary stability that is the envy of their neighbors in the former Soviet Union.

4. Mexico should also reform its tax code. Rates on lower-income people are far too high.

Greg Smith/SABA



Mexico's misbegotten mismanagement, applauded by flat-earth economists in the U.S. and elsewhere, will drive desperate millions to our borders.

Mexico has a capital gains tax provision that is grossly punitive toward small businesses. Mexico also needs to encourage domestic savings. These are internal changes that a reform-minded government should be ready and able to enact.

The Clinton Administration's bailout thus far fails to deal with the real problems. It does not reverse the devastating devaluation and the consequent decline in Mexico's standard of living. It does not change Mexico's bad economic policies. It encourages bad behavior. There is a moral issue here as well. This deliberate devaluation—and it was deliberate—violates the free-trade spirit of Nafta. The whole purpose of a devaluation is to encourage exports and to block imports.

A devaluation such as Mexico's is also undemocratic. It arbitrarily cheats people who can least afford a 40% cut in their pay and savings.

If the officials of the International Monetary Fund and other economists truly believe in the efficacy of devaluation, let them be paid henceforth in unindexed pesos. Let their pension assets be invested in unindexed pesos. Let's see how quickly they continue to tout the virtues of devaluation.

The IMF, the World Bank, central bankers and finance ministers are far too accustomed to making major decisions—decisions that can adversely impact the lives of hundreds of millions of people—in private, in secret, behind closed doors.

Such secrecy may have been appropriate in the past, but it is not today. These momentous policies should not be made behind closed doors. They should be discussed and debated in open, democratic forums such as this one. To do otherwise violates the democratic principles of this nation.

Thank you, Mr. Chairman.



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Edward Burke, portfolio manager of the Yamaichi Global Fund in New York, is becoming more bullish on two markets most investors are nervous about: the U.S. and Japan.

On the homefront, Burke thinks U.S. stocks have great potential, but investors must be selective. Burke likes regional telephone operating companies: "These companies have earnings predictability and high dividend yields on one hand, with cellular operations and international joint ventures providing exciting growth opportunities on the other." He likes GTE, which has a 5.6% yield and trades at 13 times his 1995 estimate of \$2.60 a share. For similar reasons, Burke likes Nynex and U S West.

What about Japan? Burke expects only 2% growth for the overall economy but thinks that small and mid-size firms in health care and services would do well. One of his picks is Daiichi Clinical, a drug distributor.

Special focus

These railroads are off an average 22% from their 52-week highs, but Lehman Brothers' Burton Strauss Jr. still expects substantial profit growth for the industry in 1995, even if the economy weakens. Another possible plus for the industry: Washington may abolish the Interstate Commerce Commission.

Ahead of schedule

Company	Yield	1995 est P/E
Burlington Northern	2.5%	9.0
Chicago & North West	0.0	10.1
Conrail	2.8	11.9
CSX	2.4	10.5
Illinois Central	3.1	11.0
Kansas City Southern	0.8	11.7
Norfolk Southern	3.3	11.5
Union Pacific	3.5	10.8

Sources: Market Guide & IBES, Inc.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	0.6 %	-4.6 %	-4.9 %
S&P/Barra Growth index ¹	1.7	4.1	0.0
S&P/Barra Value index ²	1.0	-2.0	-2.3
Dow Jones industrials	-0.3	-2.4	-2.7
S&P 500	1.2	-1.6	-1.9
NYSE	1.1	-3.7	-3.9
Nasdaq	-0.6	-4.3	-5.0
Amex	-0.2	-10.0	-10.1
EAFE ³	-1.0	-6.0	-8.0
CRB futures index ^{4,5}	-1.7	2.0	-8.0
Gold ⁶ (Comex spot)	-12.1	-13.0	-20.2
Yen ⁷ (per \$US)	0.3	-8.1	-38.0
Dil ⁸ (W Texas Intermediate)	-0.8	16.7	-54.9

The best and worst performing stocks

Best	Price	2-week change	1995 EPS ⁵	Worst	Price	2-week change	1995 EPS ⁵
Affymax NV	29 5/8	74%	\$-1.27	Aldila	5	-52%	\$0.85
Wellcome ADS	16	51	0.84	Autotote	7 3/8	-40	0.99
Interdigital Communications	11 7/8	48	NA	Bufete Industrial ADS	12 3/8	-34	1.79
Ameristar Casinos	8 1/2	45	0.56	Network Systems	5 1/2	-34	0.48
Indigo NV	25 1/2	38	0.55	Storage Technology	22	-32	2.88

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/94	Worst	2-week change	Since 12/31/94
Hotels, restaurants	9.2%	10.6%	Iron & steel	-10.8%	-8.3%
Tobacco	8.4	5.3	Motor vehicles	-6.6	-9.2
Health care	5.2	7.5	Trucking	-5.8	-12.2
Pharmaceuticals	4.9	5.9	Publishing	-4.9	-6.8
Household products	4.9	4.1	Chemicals	-4.9	-0.3

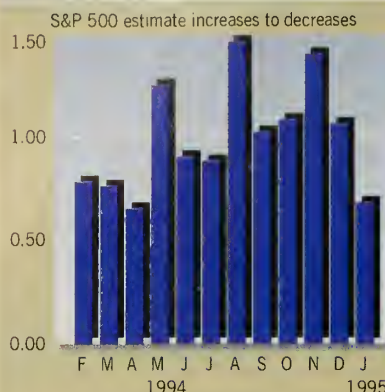
Note: Data for period ending 2/2/95. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Source: Knight-Ridder Financial Publishing. ⁶ Gold futures. Source: IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

S&P 500 P/E* vs. Aaa bonds†



*P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months.
†Actual and projected price-to-coupon ratio for Moody's Aaa corporate bond index.

IBES estimate revisions index



Forecasting the S&P 500

Year	Estimated P/E	% change current est vs 10 weeks ago	Expected year-10-year EPS growth
1994	14.8	1.0%	17%
1995	12.5	0.4	18
1996	10.9	-0.1	15

1995 estimates for IBES industry groups

Rising estimates

nonferrous metals
containers
forest products
computer mfg
chemicals

Falling estimates

savings & loans
airlines
natural gas
home building
investments



If anything, security analysts have been underestimating the growth in corporate profits—unusual given the fact that most analysts work on the commission-generating side of the securities business and often remain optimistic even though things may be changing for the worse.

These days analysts are predicting that earnings for the S&P 500 will rise 18% this year, to about 38 a share before writeoffs. But Richard Pucci, research director of New York-based IBES, Inc., which tabulates earnings estimates on 4,798 U.S. companies from 2,662 analysts, warns that

Wall Street's seers may soon be wiping egg from the face. He thinks that anemic retail sales and unsustainable steel price increases are early signs of a 1995 economic slowdown. So right now Pucci is predicting that actual growth of S&P profits might increase by 10% to 12%.

Even if Pucci is right, a few industries—such as forest products—should have a good year. The current forecast for this industry—70% profit growth—may be scaled back, but Champion International, Weyerhaeuser and International Paper should show big increases in earnings.

Who's hot

Greatest increase in estimates over the past ten weeks

Company/industry	1994 est EPS	1995 EPS estimate recent	10-week change	P/E	10-week price change	Reason
Stone Container/paper packaging	\$-1.91	\$2.06	76%	8	7%	Improved demand and higher prices for linerboard and pulp
Inco/nickel and copper	-0.12	2.04	40	13	-4	Higher metal prices; lower production costs for nickel
Kaiser Aluminum/aluminum	-1.52	0.68	26	16	-7	Higher aluminum prices
Magma Copper/copper mining	1.20	2.19	25	7	-12	Strong demand for copper
Aracruz Cellulose AOS/paper products	0.34	1.11	12	12	1	Higher wood prices

Who's not

Greatest decrease in estimates over the past ten weeks

Company/industry	1994 est EPS	1995 EPS estimate recent	10-week change	P/E	10-week price change	Reason
Pennzoil/integrated oil	\$0.85	\$1.14	-28%	39	-7%	Lower prices for natural gas in spot market
Spiegel/catalog sales	0.31	0.77	-25	12	-38	Poor sales of cold weather clothing
Western Gas Resources/natural gas	0.07	0.78	-24	23	-15	Higher depreciation costs and lower natural gas prices
Mohawk Industries/carpets	1.29	1.44	-19	9	-24	Increased consolidation costs and marketing programs
Ryland Group/construction	1.38	1.77	-17	8	-4	Higher interest rates hurt housing starts

Note: Data for period 11/16/94 through 1/31/95. Listed companies have a market capitalization of \$100 million or more. Earnings projections are Wall Street consensus estimates from 3,000 security analysts compiled by IBES, Inc. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors.

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Addition is a positive sign, both for the Essar Group, and the country it is resident in, India. While we were building a professionally-led, \$2 billion-asset company, the country's consumer base swelled to an enticing 200 million.

We achieved business leadership in steel, shipping, oil & gas, power, finance and are looking to expand our scope, internationally. India's corporate performance, exhibiting a similar trend, is expected to spurt by 30%. Parallel to our reckoning among the world's largest enterprises, was India's recognition among its 5 premier investment markets. As we achieved strategic integration, the nation reposed faith in a market-driven economy.

It is only logical today for the world to focus on the new India. Once there, converging on Essar similarly adds up.

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ESSAR
INDIA

A positive a++itude

The Kaufmann Fund is swollen with new money attracted by extraordinary performance. Is it the same fund at \$1.6 billion that it was at a tenth that size?

For swingers only

IN THE MOSTLY BULLISH market following the 1987 crash, the Kaufmann Fund has stayed well ahead of the pack. Kaufmann, which traffics in fast-growing small stocks, burst out with a 59% return in 1988; in 1991, 79%. Its five-year compound annual return is a scorching 19.3%—double the gain of Standard & Poor's 500 index and the Russell 2000 small-stock average.

In 1994, when many conservative and aggressive funds alike stumbled badly, Kaufmann returned 9%.

Today's money follows yesterday's performance, and investors are piling in. Six years ago the fund had just \$5.7 million in net assets; even four years ago it had only \$140 million. Today Kaufmann has \$1.6 billion. Last year more than \$500 million in new money came gushing into the fund.

The inevitable question: Can portfolio managers Hans Utsch, 58, and Lawrence Auriana, 51, move big money as adroitly as they moved small money? "You don't know if you can do it until you dare," says Auriana. "But I think we can."

You don't get extraordinary returns without taking extraordinary risks. Kaufmann takes risks. The fund lost 37% in 1987, a year when the overall market was up a bit. Kaufmann gets an F from FORBES for down-market performance. It's not for folks who can't take a bit of excitement.

What the customers may not fully understand is that the gush of new assets has changed the fund's character. Having billions to invest inevitably crimps a small-cap style. If the manager of a \$1 billion-plus fund takes small positions in the target companies, then hitting a winner

doesn't do much. If Kaufmann's \$175,000 stake in Consep Inc., a pest control company, rose one hundred-fold, it would contribute barely 1% to Kaufmann's total return.

If, on the other hand, a big fund makes larger bets in small companies, then it creates a liquidity problem. Kaufmann owns 5% or more of the outstanding stock of at least 30 companies, accounting for a quarter of the fund's net assets. In an apparent viola-



Kaufmann Fund's Hans Utsch and Lawrence Auriana
"We think we earn our fee."

tion of Securities & Exchange Commission rules, Kaufmann's financial statements do not itemize these holdings as "affiliated companies." Thus prospective shareholders may miss the potential liquidity problem here. But problem it is.

Kaufmann owns 5% to 17% of Altera Corp. (electronics; market value, \$1 billion); Life Partners (insurance, \$580 million); MedChem Products (medical products, \$57 million); Nukote Holding (office supplies, \$200

million); and Zoll Medical (cardiac surgery equipment, \$70 million).

Can Kaufmann sell such big block of such stocks if the market panics? "In a crash, we'd be hurt," says Auriana, "but so would everybody else." Maybe so, but a fund manager who had to liquidate would get a better price selling, say, Philip Morris or Coca-Cola in a panic than he would selling little Zoll Medical.

The skills of Auriana and Utsch do not come cheap. They assess the fund's 1.5% of assets annually for their services, twice the norm for U.S. stock funds, a fee probably worth \$24 million this year. "We think we earn our fee," says Auriana flatly. "If you want to take a chance with us, that's the price you pay."

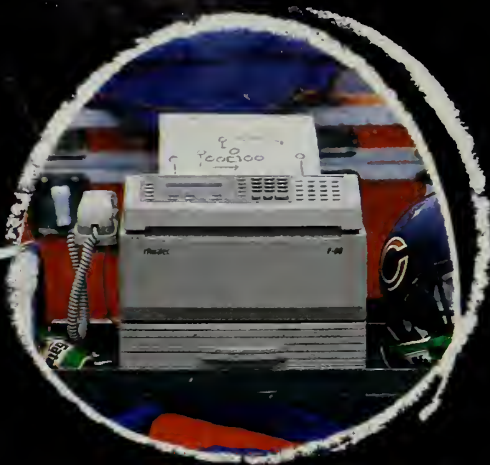
That, plus a little extra for trading Utsch's brokerage firm, Bowling Green Securities, took in \$128,000 in Kaufmann commissions in 1994. Bowling Green might have reaped far more if the SEC had not stopped it from unlawfully acting as one of the fund's over-the-counter brokers in 1991; the SEC shut Bowling Green down for a year and ordered it to reimburse the fund \$257,000 in "improperly charged" commissions.

Throw in a marketing and distribution fee, plus other charges, and Kaufmann's published expense ratio totals 2.53% a year. That is more than twice as much as what all but a handful of good domestic funds cost.

So is this swinger a buy? Only for those who are either extremely bullish on the current stock market or who are quite willing to risk a wild ride and serious fluctuations. Only for those who are persuaded that Utsch and Auriana can maneuver as adroitly with a couple of billion dollars as they could with a few million.

If you want to play the market for fast-growing small stocks, you can do it for much lower fees in any of these funds: Fidelity Low-Priced Stock, Fidelity Emerging Growth, Meridian, Rowe Price New Horizons and Wachovia Aggressive Equity. All have impressive past returns, albeit not as high as Kaufmann's. But then they charge barely half what Kaufmann charges for its services. —J.Z. ■

One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. 1-800-543-4636



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French stocks have been weak for the past two years. Is this about to change?

A bet on Balladur

By Gustavo Lombo

The Parisian bourse ought to be feeling good about the coming elections. If you believe recent polls, Edouard Balladur will handily beat

his right-wing counterparts and his socialist opponents in the May election to replace retiring François Mitterrand as president of France. That is, a socialist will be replaced by a center-right politician.

Investors, however, have been skeptical about France's prospects. Since the beginning of last year, French stocks have delivered a total return (in franc terms) of minus 17.5%. With the dollar weakening against the French franc, U.S. investors in French stocks have fared slightly better, with a 13-month total return of minus 7.4%.

What's wrong? A lot of things, among them:

- The strong franc, which makes exported French-made products less competitive.

- Corruption scandals involving high-ranking politicians and corporate executives, similar to those seen in Italy.

- A flood of shares from privatizations and rights issues.

- A fat budget deficit (4% of GDP), which is expected to decline only slightly, to \$52 billion this year, according to David Harrington, a French-market analyst at brokerage James Capel in Paris.

- Near 13% unemployment.

FRANCE

But there's good news, too. French corporate earnings should be strong. Jacques Franck Dossin, the head of French equities at CS First Boston in London, expects them to grow by 33% in 1995. Deutsche Bank estimates the French economy will grow a respectable 3% this year in real terms. Inflation is supposed to come in at only 2%, one of the lowest rates in Europe.

Another factor that could benefit French stocks is the prospect for an economic slowdown in the U.S. This would cause a move from U.S. and European cyclical markets such as France, says Harrington. The CAC 40, Paris' widely followed stock market index, has relatively few cyclical companies. This might also explain at least in part, why France underperformed other European markets over the last two years, when cyclical were in favor.

Jacques Dossin doesn't expect the market to make a significant move in the first quarter but is predicting an upswing before the May election. For the year as a whole, Dossin expects the CAC 40 to gain about 24%, when measured in dollars.

If you buy this bullish view, consider these stocks recommended by Harrington: Crédit Local de France, Société Générale, Unibail (a financial services company) and AXA (an insurer). He also likes car maker Peugeot, drug companies Roussel Uclaf and Sanofi.

Jacques Dossin's buy list includes several quality insurers and financial stocks. He's also recommending ECCO (a temporary-work firm), Castorama-Dubois (a French Home Depot) and LVMH, a maker of spirit fine liqueurs and luxury goods.

The eight stocks in the accompanying table underperformed the French market in 1994 but sell below the average multiple of 14 times projected 1995 earnings. Among them are Eridania Beghin-Say, a sugar and starch producer; EuraFrance, a financial services firm; and Lafarge Coppée, a maker of building materials and cement, which sells for only times estimated 1995 earnings.

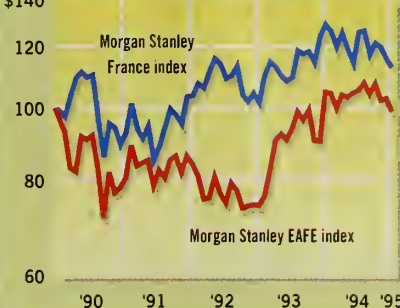
Facts about France

Widely followed index	CAC 40
1-year index change in \$US	-9%
Year-to-date index change in \$US	0%
Price/earnings	23.0
Price/book	1.4
Yield	3.4%
Market capitalization	\$433 billion
French francs per \$US	5.28
Number of traded stocks	922
Correlation with US equities (1.00 is perfect)	0.54

Sources: Barra, Inc.; Morgan Stanley Capital International Perspective; Paris Stock Exchange.

Index performance

Value of \$100 invested 1/31/90



French values

Company/business	Recent price (\$US)	1995 est P/E	Price/book	Yield	Market value (\$mil)
AXA/insurance	\$39	11.9	1.0	2.4%	\$6,263
Crédit Local de France/banking	72	8.2	1.4	2.9	2,558
Eridania Beghin-Say/food processing	131	10.5	1.0	4.4	3,371
EuraFrance/financial services	291	11.3	0.6	2.9	980
Générale des Eaux/water utility	90	13.5	1.7	2.3	9,909
• Lafarge Coppée/building materials	68	11.1	1.4	2.5	5,591
■ Roussel Uclaf/drugs	120	12.2	2.4	1.9	3,013
• Société Générale/banking	96	9.1	0.9	3.1	7,899

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Sources: Worldscope/Disclosure Partners via Randall-Helms DataScreen II; IBES International, Inc.

David Rockefeller on living with the arts.



photo: David Finn

David Rockefeller in front of a sculpture by Jean Dubuffet in Chase Manhattan Plaza, New York

David Rockefeller speaks with David Finn, board member of the Business Committee for the Arts, and Chairman of Ruder-Finn, about his experiences with the arts.

"My grandfather was a remarkable man and his achievements in business, as well as education and other fields, were extraordinary;

however, art was not one of his special interests. It was my parents, especially my mother, who had the greatest influence in my life in regard to the arts. She was one of the three founders of the Museum of Modern Art in New York.

"At home I was surrounded by the art of many periods – Classical, Asian, Gothic, Renaissance, and works from the 18th to the 20th centuries. Initially I was drawn to representational art. When my mother died in 1948, I took her place on the Board of the Museum of Modern Art, and as I spent more time at the museum my tastes broadened. Over the 54 years that my wife and I have been married we have acquired – always together – a great many different things.

"I started working at the Chase Manhattan Bank in 1946 after I had received my doctorate in economics from the University of Chicago. The Chase art program began in 1959, when I was Executive Vice President and in charge of planning our new building in New York. Gordon Bunshaft, the leading design architect of Skidmore, Owings and Merrill, recommended that we acquire works of art for the new building, and I thought we should buy works by living artists. We invited a group of knowledgeable people to advise us and developed a system of voting which we use to this day. There were seven on the committee, including two of us from the bank, and each one was asked to rate a proposed work from *zero*, meaning we shouldn't consider it, to *three*, meaning "a must," and we agreed not to acquire anything unless it had a minimum of eleven votes. Later we acquired works for other branches, including those overseas. Today the bank's collection includes more than 13,000 objects.

"In 1966 I gave a speech at The Conference Board, in which I suggested that a committee for the arts be established, along the lines of the Council for Financial Aid to Education, created some years earlier, which had successfully stimulated corporate support of education. That's how the Business Committee for the Arts was started. Collecting or supporting the arts may not suit every company; it usually comes about when leaders of companies themselves have a genuine interest in the arts. I'm happy to say that such has been the case for over thirty years at Chase. And I don't think there is any doubt that our involvement with the arts has been a positive factor in the overall image of the bank around the world."

The most respected companies in the world are involved with the arts in altogether new ways. To form an alliance that meets your strategic goals, contact:



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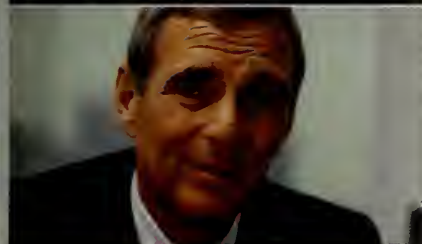
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New York, New York 10019
212 664-0600

Prepared as a public service by A.D. Lubow, Inc.

You wouldn't have gotten rich from my 1994 stock picks, but you saved yourself a bundle if you stayed away from the sectors I warned against.

Summing up

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New Jersey, and author of *The New Contrarian Investment Strategy*.

LAST YEAR was a tough one for stocks, with many of the indexes flat to down 5% or more. My picks were, overall, in positive territory but just barely. Had you purchased an equal dollar amount of each of the 87 stocks recommended in this column in 1994, you would have been ahead 1.7%, including dividends.

Let me add this, however: I have good reason to be proud of what I would call my negative advice—what to avoid. My column warned investors to stay clear of three sizzling sectors, all of which collapsed.

The most important advice was that given in the Dec. 6, 1993 column, "Say no to bonds." Readers were cautioned that the speculative scramble by big players in long bonds was approaching "mania proportions." I warned that the improving economy, accompanied by fears of rising inflation, was likely to send long rates sharply higher. Keep bond maturities short, I advised. Not such bad advice on the eve of the worst bond collapse since 1927.

My second negative recommendation was to stay away from the boiling IPO market (*Jan. 3, 1994*). I foresaw that "new issues are likely to see a major blow-off beginning in 1994." Again, pretty timely.

Finally, my column in the Jan. 31

issue advised investors to stay away from Mexico and other red-hot markets. Emerging market "speculative activity is getting dangerous." I repeated the warning twice more—Apr. 25 and July 18. Need I say more?

Okay, but there's no question that some of my stock picks last year went sour. The three poorest performers have been Burlington Coat, down 51%; TJX Cos., down 33%; and Signet Banks, down 32%. (All percentage changes in this column are for year-end 1994.) What should you do if you own any of these? I would continue to hold all three because of their good fundamentals and low prices, which should show a good bounce from here.

Retailing and apparel stocks were the worst-performing groups, although they already had dropped substantially prior to my recommendation. *Burlington Coat* (9), an off-price retailer, was recommended again in the Dec. 19 issue at 10. Warm weather and the poor apparel and retail environments were the chief culprits in the stock's mediocre performance. With an improving economy and more normal weather patterns, the stock should be a rewarding holding. BCF trades at a P/E of 9.

TJX (13, P/E 10, yield 4.3%), a large off-price retailer concentrated in women's apparel, was also hit hard, with last year's earnings likely to be off over 20%. However, it has an excellent record and is considered to be one of the best-managed companies in its industry. The stock was also re-recommended in the Dec. 19 column.

Charming Shoppes (6, P/E 10, yield 1.5%), which operates an expanding chain of women's apparel stores, is another stock that has been knocked down that should be held.

The financial sector suffered a drop in the second half, after four years of sharply outperforming the market. Many financials now trade at levels not

seen since the panic of 1990. I think the group provides excellent fundamentals and is dirt cheap. I would continue to hold *A.G. Edwards* (20, P/E 9, yield 2.8%); *Bankers Trust* (64, P/E 9, yield 6.2%); *Signet* (33, P/E 12, yield 3%); *Chubb* (79, P/E 13, yield 2.3%); *Freddie Mac* (57, P/E 10, yield 1.8%); and *Fannie Mac* (76, P/E 9, yield 3.5%), all of which are somewhat under their recommendation prices.

My losers mentioned above were, happily, offset by some nice winners. American Cyanamid, recommended twice (Feb. 28 and Mar. 28), was taken over by American Home Products for an average gain of almost 140%.

Other health care stocks also scored big. I was a bit early on them in 1993, and in my postmortem for that year I recommended that investors hang in. Those that did were rewarded.

As a value manager I was sometimes early, but probably not wrong. Low-P/E stocks require patience.

The group bounced back sharply in 1994. Six of the eight top performers were health care companies. Aside from American Cyanamid, Becton Dickinson was up 30%, Baxter International 27%, Bergen Brunswig 31%, Merck 31% and SmithKline Beecham 22%.

My picks in the computer group did well, too. My last year's review stated that "computer analysts were high on the manic-depressive scale," and advised readers to hold the stocks previously recommended. The group did well, with *Apple* (40) up 22%, *Compaq* (35) up 23% and *Hewlett-Packard* (102) up 39%. I would continue to hold these stocks and liquidate gradually on strength.

Summing up, many of my 1994 losers, like those of the year before, continue to have good fundamentals and could bounce back sharply as the drugs and computers did in 1994. As a value manager I was early on a number of occasions, but probably not wrong. Low-P/E stocks require patience. Since you are buying them cheaply, they have better than average chances of bouncing back—which is what the strategy is all about. That is why we call them "value" stocks. ■

Small technology stocks are not for those with nervous stomachs, but their very volatility can create great buying opportunities.

Buy 'em when they're cold

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors the performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

TWO YEARS AGO the *Medical Technology Stock Letter*, edited by James McCamant, was one of the top performers, with an eight-year return more than double the market's. Since then, according to the *Hulbert Financial Digest*, McCamant's portfolios have lost a bloodcurdling 68% on average.

But remember the old saw: The time to buy is when blood is running in the streets. Even though some of the blood is McCamant's, I wouldn't count him out. His portfolios have experienced setbacks almost as severe before, and have come roaring back. McCamant's experiences point to a broader moral: what to do, and not do, when investing in emerging technology companies.

The first lesson: Investors should stay out of these technology issues if they have nervous stomachs. With outside opportunities come outside risk and outside fluctuations.

Don't count on gimmicks like stop-loss orders to protect you against these fluctuations. These simply don't work for high-volatility stocks. Insofar as they succeed in keeping risk low, they also forfeit those stocks' upside potential.

McCamant often reminds investors about the trading pattern traced by Amgen, the stock that probably has done more than any other to entice investors into the biotechnology sector. Amgen rose fiftyfold from 1985 to 1992. Yet any investor who used stops to trade Amgen would have missed out on the bulk of its gain: Along the way it experienced four corrections in excess of 30% each—more than enough to trigger any reasonably placed stop loss and more than enough to generate sell signals in almost any mechanical trading system.

A second lesson from McCamant: Technical analysis doesn't work particularly well in the emerging technology sector. Such companies typically don't have the long trading history necessary to establish strong resistance and support levels. And their relatively small market capitalizations render them quite vulnerable to the herd behavior of institu-

**Remember the old saw:
The time to buy
is when blood is
running in the streets.**

tional investors. McCamant concludes that the investor in emerging technology has little choice but to focus on finding companies with really good fundamentals and then tighten his seat belt.

This leads to a third lesson—one that McCamant himself hasn't drawn but that seems obvious to me from his record: Don't use leverage when trading such companies. Given these stocks' extreme volatility, you could

be forced by margin calls into selling at very unfavorable prices. This is precisely what happened to McCamant's aggressive portfolio, which uses leverage. It lost 80% in 1994.

If we take these lessons to heart, this volatility doesn't have to be a bad thing. If you are patient and place buy orders well below current prices, for example, there's a good chance you will be able to buy at extremely favorable prices. So long as a decline in price is not accompanied by any deterioration in fundamentals, it can present a wonderful buying opportunity.

What this means is that you can turn investor psychology to your advantage. This is the case currently with biotechnology stocks, according to McCamant. The sector's decline "was caused by emotions, not bad news."

As an example, McCamant points to Somatogen. At its 1992 high of more than 50, Somatogen had yet to treat its first patient. Since then the company's fundamentals have strengthened considerably. Clinical trials of several of its products are going well. And last year it announced a major partnership with Eli Lilly to bring its blood substitute product to market.

All this good news notwithstanding, Somatogen today is selling for less than \$10 per share. A stock McCamant says.

What else is McCamant betting for 1995? The largest holdings of medical technology companies in his portfolio are (all trade o-t-c): Chiron (recent price 67), Collagen (2), Agouron Pharmaceutical (16), Immunochem (4) and ProCyte (3). In the agbiotech sector, McCamant's largest holding is Calgene (7). He would buy more of this stock if and when it drops below \$12 per share.

the very strength of the economy last year frustrated many of my stock recommendations. What was predicted for 1994 now looks like it will happen in 1995.

Too soon

RAY R.S. SALOMON JR.



Salomon Jr. is principal and founder of Stamford, Conn.-based STI Management. Research assistant: Caroline Davenport.

MY PREDICTIONS last year I was right to forecast a continuing benign inflationary environment, but was wrong to expect a slowdown of the economy. As a result, a good many of my stock recommendations went flat.

Ironically, the very strength of the economy—greater than expected—shook investors with fears of inflation. In several columns I emphasized cyclical sectors on the basis that growth in the economy would slow to a more sustainable rate. This slowing would instill confidence in investors that the business cycle could be extended several more years.

Instead, economic growth accelerated throughout the year. In a perverse way this created a poor environment for cyclical stocks in general and to stocks in particular.

Hence my auto stocks did not do well, though all the companies came through with sparkling earnings. The move to stocks offer good value, but they will continue to struggle in the marketplace until economic growth slows—an event I expect to occur most likely in the second or third quarter of this year. In short, continue to hold auto stocks.

The gambling stocks experienced a substantial correction in 1994, and I was premature in trying to call the

turn. The Caesars recommendation worked out very well as a result of the ITT takeover, but it was not enough to offset further declines in the other stocks. I still favor the group. The fiscal condition of state and local government has improved to such an extent that the intense need for additional revenue from gaming has subsided a bit, slowing the growth of new gaming jurisdictions. At this juncture the best situated companies for the longer term appear to me to be *Mirage* (24) and *Circus Circus* (27).

During 1994 I did two columns on emerging markets—one in May on Mexico just before the election and just after the assassination, and a more general piece in October that recommended investors consider emerging market debt as well as equity.

There is absolutely no change in my enthusiasm for investing in emerging markets, as I strongly believe that recent weakness provides a terrific buying opportunity. The critical lesson to be learned from the Mexican crisis is the virtue of diversification

Western Europe, the U.S. and Japan. This growth comes at a much higher risk level, principally as a result of possible political instability, but this risk should not deter investors from having 5% to 7% of their long-term investments represented here. I continue to recommend the *Emerging Markets Income Fund* (13) for debt and the *Templeton Developing Markets Trust* (14) for equity.

In a more recent column I made a somewhat tentative recommendation of the security brokerage stocks. It was tentative in the sense that I recommended them as trading buys and not long-term investments. The suggested strategy was to forget about earnings, which in this industry are impossible to predict, and to focus instead on book value as an indicator of value. A low price-to-book relationship would represent a buy signal, while a sizable premium to book would represent a sell signal.

While the stocks looked cheap on this basis at the time of the article, the Orange County debacle hurt the in-

The developing markets still have the potential to grow two to three times faster than the mature markets of Western Europe, the U.S. and Japan.

across many different developing markets as opposed to a concentrated bet on any specific market. I remain convinced that emerging market debt is at least as good an investment opportunity, if not better, than emerging market equity. The debt provides both a handsome current return and appreciation potential, while equity provides only the growth dimension.

One thing hasn't changed: The developing markets still have the potential to grow two to three times faster than the mature markets of

industry in general and Merrill Lynch in particular. I still believe that the brokerage stocks represent good trading buys for the agile investor.

In short, I believe that while my timing was off, most of my stock recommendations remain valid. Once the economy shows signs that it is not becoming overheated, the stock market should do much better. In this environment I recommend *Magna International* (37), *Merrill Lynch* (40), *American Express* (32), *GTE* (34) and *Boeing* (47). ■

When you restructure a business, you don't just cut expenses; you also redeploy assets. Why isn't the new Congress redeploying the federal government's single biggest asset?

Frozen money

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

WILL the loudly heralded "revolution" in Washington turn out to be a bust? I suspect it may unless the combatants cease looking exclusively at taxes and spending. By focusing on the flows that go in and out of the government coffers, they are looking only at the government's "income statement." This is worse than a crime, it is a mistake.

Any intelligent businessman should be able to spot the error. When downsizing and restructuring an enterprise, you don't just cut costs and lay off people, as important as those factors are. You also look for nonperforming or underperforming assets and find ways to put them to better use. If someone else can employ those assets more profitably than you can, then you sell the assets.

If the wizards of Washington truly want restructuring, they should pull out the balance sheet and go to work. Even a cursory examination shows that the government agencies and departments do not have to pay capital carrying charges or rents on government assets. This can mean only that the federal balance sheet is loaded with assets that return little or

nothing and serve no purpose other than to swell bureaucratic numbers and prestige.

Of course, the bureaucracy has little interest in maximizing the return on these assets. If the government sells assets, the revenues are usually not earmarked for use by the agency or department that initiates the sale. Consequently, no bureaucratic or budgeted benefits ensue. In fact, there may well be significant costs to bureaucrats. Employment and promotion opportunities would be reduced. The bureaucrats would also suffer a loss of power. Maybe even status, and we know how important status is in the world capital-of-limo service.

Where are the government's nonperforming assets? We can start with the federal lands. The federal government's holdings comprise about one-third of the surface area of the country, embracing an area six times the size of France. This federal estate is

It's no surprise that Adam Smith recommended that every great monarchy privatize its crown lands.

potentially one of the most valuable state-owned enterprises in the world. It is ripe for privatization.

In *The Wealth of Nations* (1776) Adam Smith realized that public ownership and administration was negligent and wasteful because public employees did not have a direct interest in the commercial outcome of their actions. What was true in the 18th century is even more true today. It's no surprise that Smith recommended

that every great monarchy privatize its crown lands.

If we followed Smith's advice, the benefits would be impressive:

- The productivity of the lands would increase. With private ownership we would obtain more commercial, recreational and environmental output
- With increased productivity, the value of the lands would increase and employment and economic activity would be enhanced.

- Consumers would be served more efficiently. After all, the only way that private-land owners can profit from their property is to employ it for the satisfaction of other people's wants. Serving consumers, of course, is the social function of private property. It is not, all protestations to the contrary, the real function of government.

- Privatization would eliminate the negative cash flows associated with the federal government's retention of the lands. This would shrink the budget deficit.

- Land sales would generate federal revenues that could be used to reduce the national debt.

- A new state and local tax base would be created. Surely, the newly elected Republican governors and local officials should see this advantage. The western states, where most of the federal lands are located, would be less dependent on in-lieu payments from Washington. Federalism would be enhanced.

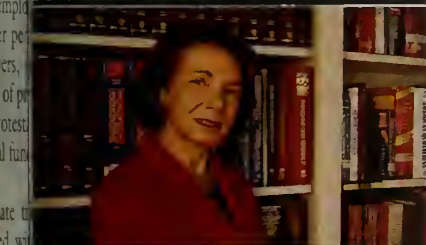
- Land-use decisions would become less politicized. Commercial and noncommercial land users would have to spend less time and money obtaining land-use rights through political and bureaucratic processes. Indeed, John Maynard Keynes concluded in 1936: "It is better that a man should tyrannize over his bank balance than over his fellow citizens."

But until the folks inside the Budget Office take out their sharp pencils and go to work on the government's balance sheet, we will be denied these benefits. Ronald Reagan knew this. That is why in his budget message for fiscal 1981 he proposed the privatization of federal lands. Nothing new here. Both Alexander Hamilton and Thomas Jefferson advocated privatization of federal lands. So what is the new Republican Congress waiting for?

advice, some of it from bitter experience, about how to pick a hedge fund.

Looking for the next George

BY SHELBY WHITE



Shelby White is a New York-based financial writer. She is the author of *What Every Woman Should Know About Her Husband's Money*.

HEDGE FUNDS REMIND ME of the rouché Marx line about clubs. The ones that will take your money may not be the ones you want to invest in. Although Michael Steinhardt had a bad year, down over 30%, don't bother to call. He told me he is not taking new money. But many hedge funds, over 800 managing over \$100 billion in assets, are looking for investors. Finding the next George Soros is not so easy.

Hedge fund is a term that covers a variety of partnerships, each limited under 100 investors in order to escape regulation by the SEC. They are managed by general partners who get incentive fees, usually 20% of any profits.

What should you look for in a hedge fund? First of all: *Who?* Before you invest, interview the general partner. I jumped into a hedge fund because I heard the smart guys were investing. I didn't check. The result was a fiasco.

To me, the strategy isn't as important as the manager. You are likely to get ho-hum results going with a formulaic manager who is always hedged 50% or always 50% invested in equities.

Investment opportunities change over the long term. You want a pilot who can fly even if the weather changes.

Don't consider a hedge fund unless you have \$1 million minimum of investable assets. The funds are not liquid, you usually can't borrow against them without the general partners' permission. Hedge funds will accept money from trusts, IRAs and 401(k)s, but can't be custodians.

The classic hedge fund takes long and short positions.

Macro hedge funds roam the globe for opportunities in the currency and interest rate markets, both long and short, and often use a lot of leverage.

Short-selling funds don't hedge.

Distressed securities funds—look for workout situations.

There are many funds of hedge funds for those who want to spread their risks among managers.

Opportunistic funds are my choice. They go where the money is.

Besides who and how, here are other questions you should ask.

What's the track record? Look at a five-year average. I like a manager

Don't consider a hedge fund unless you have \$1 million of investable assets.

who has lived through a downturn.

Leverage. High returns can mean risk. That means leverage. You can buy stocks on 50% margin, but short-term Treasuries require only a 1% or 2% margin and you can trade currencies for no money down, if you have credit. Here's where the manager's judgment is critical.

Fees and minimums. Most funds

require a minimum of \$250,000 up to \$5 million. Count on an override of 20% on profits and a 1% annual expense fee. Hedge funds usually have a high-water mark. That is, the manager doesn't get an override until your losses are recouped.

What percentage of the general partners' own money is in the funds? The manager who tells me he has all of his money plus his mother's in his fund wins my confidence.

When can you withdraw your money? Some funds allow quarterly withdrawals, some year-end and others only every three years. Ask if the general partner can take his money out and leave you holding some slightly damaged merchandise. (I know about this; see *White v. Guarante et al.* 372 N.E. 2d 315.)

How often will you get a statement? A quarterly letter that seldom discloses actual holdings is usual.

How big is the fund? I'm convinced that it's easier to invest \$100 million than \$2 billion. Big funds take such large positions that many investments are simply closed to them.

You can tell a little by the company a hedge fund keeps. Ask who are the lawyers for the funds, the accountants and the custodian.

Read the partnership contract carefully. I spotted a deal with a brokerage firm that revealed a conflict of interest. Look at the balance sheet.

The hedge fund manager should ask you a few questions, too. He will want to be sure you understand the risks. Some funds want to be sure you are not investing more than 40% of your committed capital. If you're not required to sign a subscription agreement asking about your investment experience, look out. A fund manager who is not scrupulous about who he takes in is not a manager to be trusted.

Want to know more? Hedge funds are not listed in newspapers. Look out *Mountain Hedge Fund Review*, *Hedge Fund News* and *MAR/Hedge* do report fund news. *The U.S. Offshore Funds Directory*, *Barclay Hedge Fund Report* and the *Performance and Evaluation Directory* list funds, some available to U.S. investors, some not. Republic National Bank's Hedge Fund Select advises clients and tracks funds' results. Van Hedge Fund Advisors also tracks results.

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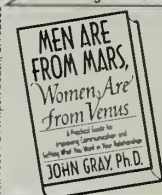
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Nynex rings the bell

NYNEX CORP. has been taking a drubbing in the press lately for failing to meet such regulatory service goals as responding quickly to customer complaints. As for Big Board-listed Nynex stock, for much of the past year or so it's been stuck in the mid- to high 30s. Recent price, 38½.

Nynex has taken a bad rap, say the bulls, who see a silver lining in its near-term problems. Nynex, they explain, is having difficulty keeping up with an unexpected surge in access lines and volume. Indeed, last year its customer base in New York State alone was up 3.3%, versus average industry growth of around 2%. Because of improving economies and higher equipment utilization, the rest of Nynex's service area—the five New England states—also is showing good growth. Thanks to both, last year Nynex managed to offset a New York Public Service Commission-ordered revenue cut of \$323 million.

One bull, analyst Donna Coward of Richmond, Va.-based Wheat First Butcher & Singer, figures that Nynex's productivity was up 13% last year on a nearly 9% reduction in the employee rolls. And the payroll cutting continues apace.

The consensus estimate of Wall Street analysts is that Nynex will earn around \$3.25 a share this year, up from \$2.97 in 1994. With Nynex stock trading at around 12 times estimated earnings and yielding 6.1%—putting Nynex at the lower end of valuations for Bell operating companies—some analysts predict the stock will make 45 over the next 12 months. —RICHARD PHALON

Chipmakers' maker

WATKINS-JOHNSON CO., based in Palo Alto, Calif., made its name as a maker of aerospace and defense electronics systems. But in recent years the \$333 million (sales) company's growth has come from its other main business—equipment for the manufacture of semiconductors. Last year this division accounted for more than 70% of profits.

Between 1992 and 1994 earnings per share quadrupled, from 66 cents to \$2.64. The stock, too, shot up to 35½ by the spring of 1994, but has

since stalled. Recent NYSE price, 34½.

Time to buy, say Morgan Stanley analysts Robert Maire and Phil Friedman. They note that Watkins-Johnson's growing strength is in the Asia/Pacific market, which in the fourth quarter accounted for 61% of semiconductor equipment orders, over half of that from Japan. In the current quarter, the company expects a few large orders from Hitachi and Toshiba, which in the past designed their own equipment. In addition, Watkins enjoys good growth prospects on the commercial side of its electronics business; it manufactures digital signal processing transceivers for cellular telephones.

The Morgan Stanley analysts predict Watkins-Johnson will earn \$3.20 a share this year, up 21%, and are looking for \$3.60 in 1996. They expect Watkins stock, selling for a cheap 11 times estimated 1995 earnings, to hit 45 over the next 12 months, a 30% gain from current levels.

Play ball

LAST SUMMER ragtag conglomerate Figgie International unloaded some businesses to raise cash. Among them was Rawlings Sporting Goods Co., Inc., the official supplier of baseballs to the major leagues. Based in Fenton, Mo., Rawlings was sold to the public on June 30 at a price of \$12 per share; Figgie pocketed \$127 million, including a one-time cash dividend.

Alas, baseball has come in for a lot of bad publicity since a strike shut down the majors last summer, and Rawlings stock has advanced only slightly since then, to a recent o-t-c price of 14. But with spring season soon upon us and the Clinton Administration looking for a victory by ending the baseball strike, analyst Timothy Conder of A.G. Edwards & Sons recommends taking a swing at Rawlings' 7.65 million shares.

Baseball-related products—including gloves, balls, bats, helmets, protective gear and team uniforms—make up about 60% of Rawlings' \$150 million in sales. It holds a leading 33% share of the estimated \$170 million (wholesale) U.S. market for baseball gloves. The company also makes gear and uniforms for basketball, football and hockey.



Basket of Rawlings balls
A sporting proposition.

Preseason orders for Rawlings baseball goods were strong, with overall backlog dollars up 15% over last year. And while the company's lines are firmly entrenched at big chains like Wal-Mart and Sports Authority, Rawlings is now seeking out customers among smaller regional sporting goods outlets.

Another plus: Rawlings generates excess cash flow because its capital spending needs are light; outside suppliers provide 60% of its production. When Rawlings went public, debt was over 60% of capital; Conder says by the end of its current fiscal year debt will already be down to around 50%.

Conder estimates Rawlings will earn \$1.25 a share in the fiscal year ending August 1995, and \$1.50 in the following fiscal year. He thinks Rawlings stock is cheap at 11 times projected earnings and expects it to reach up 33%, by this fall. Not a home run, maybe, but a strong base hit.

Hog cycle victim

WHEN STREETWALKER last wrote about IBP, Inc., the world's largest producer of both fresh and boxed beef and pork products, we recommended buying the NYSE-listed stock at 17¾ (Apr. 3, 1992). By last fall IBP stock had doubled, to 35½.

IBP (1994 sales, \$12.1 billion) is up on the weakness of hog prices.

which in 1994 were the lowest in 20 years. This created a tremendous spread between the cost of hogs to IBP and the price at which it could sell finished pork products. In the fourth quarter, operating margins for Dakota City, Neb.-based IBP hit 4.6%, highest ever. Last year its earnings more than doubled, to \$3.79 a share.

Alas, IBP stock has lately sold down to just under 30 on the heels of a government report that showed producers of hogs and pigs are cutting back. With hog prices expected to rise, IBP's high pork margins are almost certain to erode. William Leach, food analyst for Donaldson, Lufkin & Jenrette, estimates IBP's pork division profits will drop 30% this year.

But Leach thinks IBP's stock has been oversold. He notes that IBP's pork business accounts for less than 10% of earnings, and that its much larger beef business continues to do well. He looks for 1995 earnings to decline 8%, to \$3.50 a share, and to recover modestly to \$3.75 in 1996. If he's right, then IBP stock sells for 8.5 times estimated 1995 earnings. Even according to IBP the lowest multiple of one 27 food and beverage stocks he follows, Leach argues the stock's north around 11 times earnings, the lowest P/E for which it traded in 1992 and 1993. He expects IBP stock to rebound to 37 this year, nearly 25% over current levels.

Thank you, FDIC

PAST ISSUE, regional banking analyst Michael Mayo of Lehman Brothers predicted that on Jan. 31 the Federal Deposit Insurance Corp. would slash its premiums from 24 cents per \$100 of deposits to 8 cents per \$100 (streetwalker, Feb. 13). Mayo said such a move would add 5% to a typical bank's sustainable earnings.

Mayo was too conservative. The FDIC voted to cut deposit insurance premiums to just 4 cents per \$100, a rate that will apply to over 90% of all banks. This will take effect in the second half of 1995 and, says he, add 5% to banks' earnings over time.

Mayo still likes the three regional banks that he recommended: CoreStates Financial (recent price, 28¼), Mellon Bank (37) and NationsBank (30%).

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"The more things change . . ."

70 years ago in FORBES

FROM THE ISSUE OF MAR. 1, 1925)



Elwood Haynes' first automobile assembly plant, in Kokomo, Ind., shown as it appeared circa 1894.

"We had offers from the circus to show our car, and actually did put one with its driver in John Robinson's circus; and [in 1894] we received \$400 from the Columbus Fair for showing three of our cars and running two of them around the track to the excited cheers of the spectators."

—Auto pioneer Elwood Haynes

"In the three months following the Coolidge landslide there was a turnover of fully 150 million shares of stock on the New York Stock Exchange, during which it has been estimated that the market value of the shares of a number of representative corporations actively traded in was increased by fully \$1.5 billion."

60 years ago

FROM THE ISSUE OF MAR. 1, 1935)

"From all accounts, [Doris Duke's] gigantic wealth has brought her more delight than happiness, notwithstanding that she has earnestly striven to be allowed to live a perfectly normal life. Are her multiple millions a blessing, or the reverse? My conclusion is that it is a mistake for any man to give up everything else . . . to pile up an abnormal fortune."

President Roosevelt, I learn, has ideas not publicly revealed about restricting the size of enterprises. I am told that his extreme hostility to large utility corporations is due partly to the fact that he wants big businesses severely curbed, that he is not only against the creation of any more towering organizations, but would like to

see companies which own and operate plants in different sections of the country confined to a limited area."

50 years ago

(FROM THE ISSUE OF MAR. 1, 1945)

"Three nationally important developments are foreshadowed: Enormous growth of manufacturing in the South. Great expansion in the West. Decentralization: the locating of new plants away from such concentrated centers as Akron, Pittsburgh, Detroit. . . . Spectacular beyond precedent has been the construction of airplane factories and shipbuilding yards on the Pacific Coast. Moreover, a \$100 million steel mill was brought into being in California and a \$200 million steel mill in Utah, to meet war requirements."

"The latest step in the red-hot controversy over America's postwar international aviation policy has been taken by the Senate Commerce Subcommittee on Aviation, which proposes to let a single 'community company' handle the nation's foreign commercial flying. The company's stock would be controlled jointly by Pan American Airways, domestic airlines, rail and steamship lines."



The Ercoupe was designed and marketed as the postwar "flivver of the air." It didn't make it.

25 years ago

(FROM THE ISSUE OF MAR. 1, 1970)

"Market research outfit Audits & Surveys reports that of the 359,000 U.S. eating establishments, over half, or 193,000, are of the counter-service variety. And while the number of restaurants of all kinds decreased slightly in the last five years, the number of drive-ins increased by 46%, to 10% of the total."

"Even that crusty old populist, Chairman Wright Patman of the House Banking Committee, applauded when Dr. Arthur F. Burns succeeded William McChesney Martin Jr. as chairman of the Federal Reserve Board; and, when Burns indicated that he thought it might be time for loosening controls on credit, the stock market jumped 14 points."



Everybody loved Arthur Burns as incoming head of the Fed, with his hints of lower interest rates and easier credit.

10 years ago

(FROM THE ISSUE OF FEB. 25, 1985)

"Appropriations for 1985, the sums that officers of the 1,000 largest manufacturing corporations tell the Conference Board they will approve for [capital] spending, are now expected to be 13% less than last year. But these numbers do not portend an investment downturn. Appropriations had jumped almost 40% in 1984. So capital spending this year will approach a level one-third higher than in 1983."

"Can the dollar stay this strong? Can it hold on until you hop on the plane this summer? Surprise—you can lock in foreign currency rates and spare yourself the suspense. How? Simply by purchasing foreign currency traveler's checks with your U.S. dollars, right now."

Don't you feel disgusted when you see some fellow strutting along with the air of a peacock? Doesn't the pompous gentleman cause you to laugh—or swear? Isn't vanity the essence of childishness? I have been trying to analyze in my own mind whether more or fewer of our so-called big men are obsessed with pride today than 20 years ago. I believe that more of our leaders are now democratic, approachable, likeable fellows than was the case in the earlier years of this century. . . . The press and the people have abundantly brought it home to the rich that their riches do not entitle them to any special deference or homage. . . .

—B. C. FORBES

Life is a wonderful thing to talk about, or to read about in history books—but it is terrible when one has to live it.

—JEAN ANOUILH

Life is seldom as unendurable as, to judge by the facts, it ought to be.

—BROOKS ATKINSON

The art of living is more like wrestling than dancing.

—MARCUS AURELIUS

The life of every man is a diary in which he means to write one story, and writes another; and his humblest hour is when he compares the volume as it is with what he vowed to make it.

—JAMES M. BARRIE

A Text. . .

Let us hear the conclusion of the whole matter: Fear God, and keep his commandments: for this is the whole duty of man. For God shall bring every work into judgment, with every secret thing, whether it be good, or whether it be evil.

—ECCLESIASTES 12: 13-14

Sent in by Carol H. Krieger, Honolulu, Hawaii.

What's your favorite text?

The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

I don't understand life at all, but I don't say it is impossible that God may understand it a little.

—JULES RENARD

Life is half spent before one knows what it is.

—FRENCH PROVERB

How soon do we forget

What elders used to know:
That children should be raised,
Not left like weeds to grow.

—ART BUCK

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Life as we find it is too hard for us; it entails too much pain, too many disappointments, impossible tasks. We cannot do without palliative remedies.

—SIGMUND FREUD

The life force is vigorous. The delight that accompanies it counter-balances all the pains and hardships that confront men.

—SOMERSET MAUGHAM

Life is the only art that we are required to practice without preparation, and without being allowed the preliminary trials, the failures and bitches, that are essential for training.

—LEWIS MUMFORD

The art of life is to know how to enjoy a little and to endure much.

—WILLIAM HAZLITT

Nothing is so false as human life, nothing so treacherous. God knows no one would have accepted it as a gift, if it had not been given without our knowledge.

—SENECA

Life is easier to bear than you think; all that is necessary is to accept the impossible, do without the indispensable, and bear the intolerable.

—KATHLEEN NORRIS

Life is little more than a loan shark: It exacts a high rate of interest for the few pleasures it concedes.

—PIRANDELLO

Every man is born to one possession which outvalues all his others—his last breath.

—MARK TWAIN

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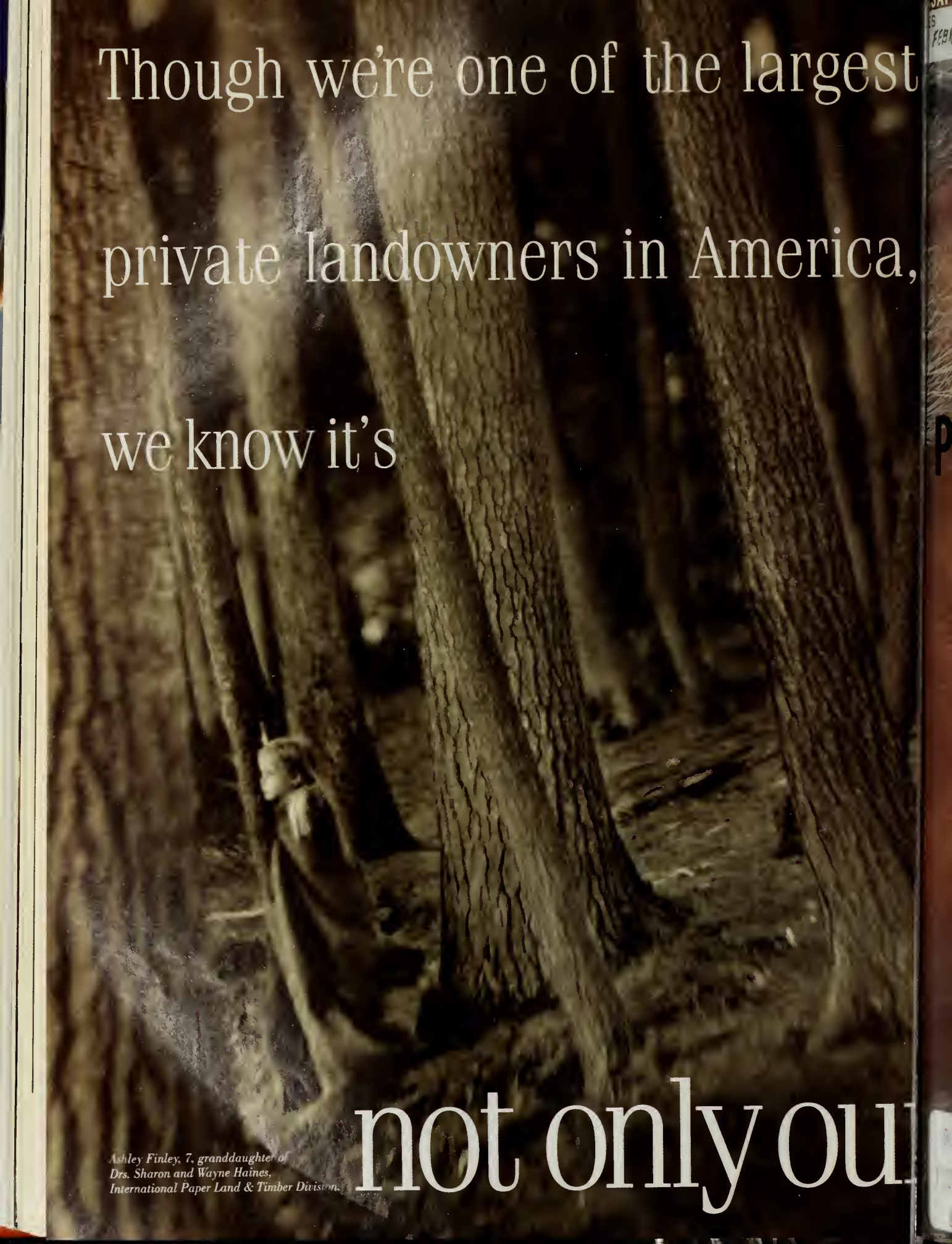
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A black and white photograph of a forest floor. Several large, textured tree trunks are visible, leaning at various angles. In the lower-left background, a small child is standing, looking towards the camera. The overall tone is somber and naturalistic.

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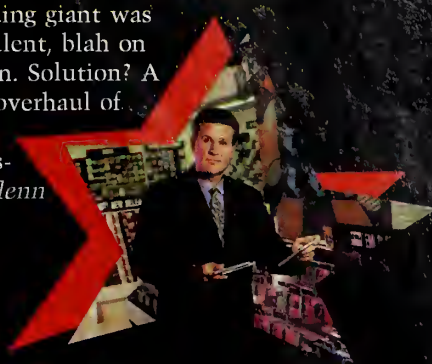
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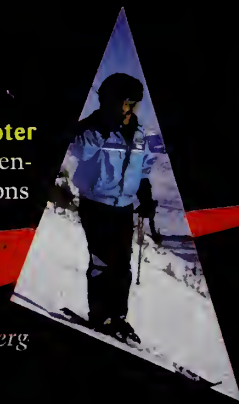


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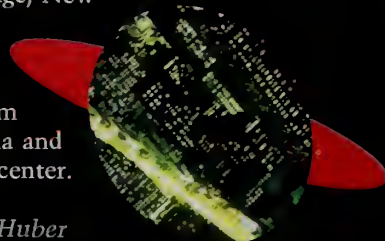
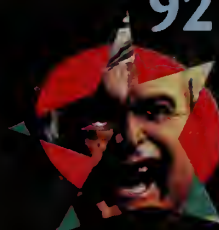
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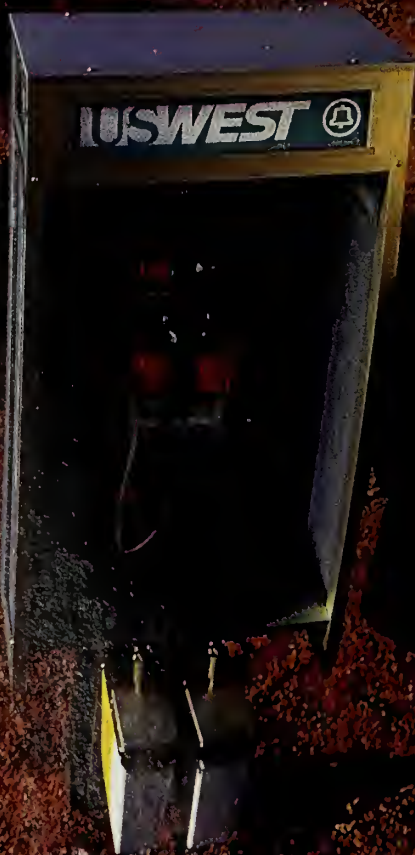
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Power Macintosh

Steve Archuleta
Director, Systems for Mass
Markets Service Delivery
US WEST, Phoenix

During the week, Steve manages the systems and processes that support 11 million customers in 14 western states. On weekends, he dotes on his granddaughter, rushes the net on the tennis court and, "when I'm feeling daring," scales the face at local rock climbing havens.



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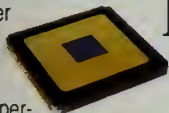
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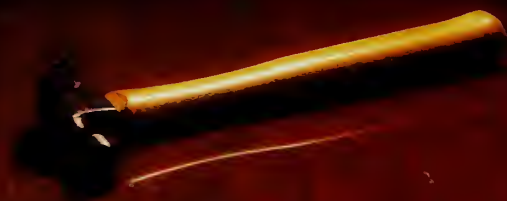
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By Rich Karlgaard

GIVE US BANDWIDTH



After you read ASAP, tell us what you think.
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neers, tell us your success stories.)

THE INFORMATION AGE: born of Moore's Law, catalyzed in the beaker of opportunistic capitalism, proselytized through free trade, big birds and broadband pipes to all reaches and now spreading riotously from one week to the next. This phenomenal era has moved quickly to occupy new and vast territory.

Now the revolution *really* begins. How America handles it is another question.

The personal computer industry enjoyed its best year in 1994—another knockout performance in a long series of upside surprises. Last year's Q4 was up 23%. In the U.S., PC sales caught up with TVs for the first time. Intel's Pentium woes caused a flap in the press, but the mass of buyers hardly cared at all; Pentium and Pentium-class machines flew off the sales racks. So did fast modems and subscriptions to on-line services.

This column is being written on a Mac Quadra 950, powered by a 40 megahertz Motorola 68040 chip. Dazzling stuff...in 1992. You can buy the equivalent computer for about \$1,200 today. Millions are, but millions more are buying a better computer—a Power Mac or Pentium-class machine—for about \$500 more.

If that's not shocking enough, before this year has expired, computing costs will have dropped below \$1 per MIP—in game machines. Whether game machines knock out PCs just as PCs elbowed aside big iron is beside the point. The real issue is this: The performance gap between computing in government and corporate environ-

How to pull off the double coup of keeping middle-class hopes alive and American companies lean and prosperous? Deregulate bandwidth.

ments, on the one hand, versus small businesses and home offices on the other, is vanishing.

Not so the gap in bandwidth. It is large and widening. Most large businesses in big cities can tap into T1 lines (feeding data at 1.5 megabits per second, or about 100 times quicker than the average PC modem). Soon big business will have gigabit-per-second access. When homes and small offices will get it is anyone's guess. It had better be soon, though. Today's bandwidth disparity is tomorrow's social dynamite.

Those with bandwidth abundance—big businesses—are the same organizations now blowtorching their employee payrolls. We don't see this trend reversing in our lifetime. (Why should it? What company doesn't run better leaner?)

During the past 10 years, millions of white-collar workers have been "liberated" to lower-paying jobs or the freelance sector. Tens of millions more are headed that way, by choice or by the boot. Whether this expand-

ing trend becomes a national asset or national disaster depends on bandwidth.

Matching Buyer to Seller

When you've been downsized out of a job, three things can happen. You can get a new and similar-paying job, a pipe dream for all too many. You can take a lower-paying job. You can sell your services as a freelance knowledge worker to leaner, faster companies that still need—in spurts, rather desperately—your expertise. A freelance career is often the best choice if it can be managed. It gives the newly furloughed a chance to regroup, to become an expert, to recalibrate skills for the market. And tomorrow's virtual companies will have a growing appetite for white-collar skills off the payroll.

But to match buyer to seller and tap this national resource of computer-savvy millions (and thereby pull off the double coup of keeping middle-class hopes alive and American companies prosperous) we need bandwidth. Lots of it. How much? Enough bandwidth for full-motion, large-screen video conferencing. Enough to search the world's libraries in seconds.

To possess *computing* power on a parity with big business and big government, as these millions of new Pentium and Power Mac owners do, is a wonderful thing. But it's of little use without bandwidth parity, too.

Politicians need to hear this message loud and clear: Give the people bandwidth. The Republican spirit of deregulation is a start.

"So we looked for groupware that could bring us all



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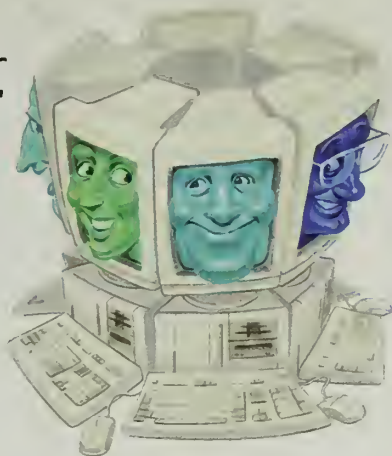


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■ IQ Angst

Your fear that critics of technological advancement will blame computers for widening the dull-poor smart-rich gap ("Editor's Letter: IQ and IT," Forbes ASAP, Dec. 5) is understandable, but greatly exaggerated. Such critics are small in number and have no influence on technological outcomes. If they did, we'd still be reading by candlelight.

Your assertion that PCs and the information age will not increase the IQ gap, however, is absurd. PCs and broadband networks are tools—in this case tools for accessing, assimilating and disseminating information. Since those with higher IQs are better equipped to access information and information is power and power is money...need I say anything more?

V. VIENI
Bronx, N.Y.

Computing power in the hands of the individual will overcome many of today's social and economic inequalities. Those of us not blessed with brilliance will still be able to shine.

Your fears about PCs and networks being fingered as bad guys in the debate on cognitive ability and its effect on society are well justified. However, that will only be done by the proponents of the welfare state, who cannot stand individual freedom. The microprocessor, personal computer and networks are tools which

support freedom of the individual, individual knowledge and access to information. A knowledgeable population cannot be easily enslaved.

AMAURY PIEDRA
Boulder, Colo.

Not only does the information age reward smart people, it rewards companies with really smart people who are computer literate and proficient. My company invested in the next generation of computer technology this year, complete with training, in hope of implementing a modernized purchasing program and efficient marketing efforts.

My company's only limitation is the skill and willingness of those within my organization to acquire the technological skills to enhance their own mental abilities.

ROBERT T. FANNING JR.
Mokena, Ill.

I was pleased to read your Editor's Note, which contradicted the premise of *The Bell Curve: Intelligence and Class Structure in American Life*.

Intelligence is the innate intellectual ability to grasp complex concepts. Smarts are the ability to recognize and seize opportunity through the application of a few basic experience-based principles. I know of many intelligent people who sit back and philosophize about what they should or should not do, but can't get to it. I also know some downright stupid idiots who have doggedly generated millions.

ANDRE Z. I. MECH
Ontario

As a member of Mensa, I feel it necessary to write in response to your snide little article. I have attended Mensa meetings all over the world and I have yet to meet a "high dome" who is whining that intelligence, per se, should be rewarded by society at large. The majority of Mensans one meets at gatherings in the U.S. appear to concern themselves [with] proving that they can get just as drunk and behave just as stupidly in public as any Joe Sixpack with an 85 IQ. (This

is considered by the rest of us to be a reaction against the American tradition of vilification, ridicule and hostility directed at anyone whose intelligence is higher than room temperature.) Mensans who do not congregate in large groups, or who belong to international Mensa, are quite frequently among the most successful people in their fields. For example, the per capita membership in Mensa in the British Channel Islands is the highest in the world, and is said (jokingly, I am sure) by some to reflect the fact that intelligent Brits who make a lot of money prefer to keep it out of the hands of the Inland Revenue.

What you lot hate most about those of us whose IQs go right OFF the bell curve is that there's no law you can pass and no "affirmative action plan" you can institute that will raise your own IQs or those of your pet victims by a single decimal point. And that is as it should be.

You are correct insofar as you state that there are different kinds of intelligence and that people succeed in different ways. However, I find it curious that you seem to conclude that people who display a high IQ and succeed conventionally are therefore not intelligent or successful, after all.

I don't remember if there is a logical fallacy to cover this, but I remember my grandmother saying, "Saying so don't make it so."

ELIZABETH SHAW
Atlanta

■ Spell IT Out

Initialized assumption has become another arrogance of the computer generation. "ASAP" may be understood by 50% of the populace, those who live in the fast lane. And "IQ" by the 50% above the 100 mark on the bell curve.

But IT? What is IT? I need to know, ASAP.

MARTHA MOODY
Editor, Seasons

Supplements to the *Los Angeles Times*
Burbank, Calif.

EDITOR'S NOTE: For your information
continued on page 1

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Let from page 12

IT stands for Information Technology.

■ Barnevik's World

No doubt it's his computer science background which makes Barnevik so certain computer simulation "is far more reliable than prototype building" ("ASAP Interview: Percy Barnevik," Dec. 5). One of us is forgetting which is the real world.

Consultants are a clear bargain when special knowledge is needed.

TOM STEARNS
Nashua, N.H.

■ The Downsizer

We've enjoyed the Downsizer articles, but the tone of the letters responding to these articles suggests many readers have missed your point. They are probably too angry, after you suggest the elimination of their positions, to finish the article.

We eagerly await your sound advice with a feature titled "Fire Your Reengineering Team!"

SCOTT MILLER, MICK DEQUIN,
MARK FONT, ED LISKIEWICZ, TED
PIECHOTA
Reengineering Team
Ingersoll-Rand/Automation Division
Farmington Hills, Mich.

First, the Downsizer tells us we should fire all our nerds and buy whiz-bang software packages that let accountants become programmers. Now, Gary Poole tells us "How to Manage Your Nerds" (Dec. 5). Well, which is it?

ROBERT L. MCMILLIN
rlm@helen.surfcty.com

■ Are Nerds the Norm?

"How to Manage Your Nerds" suggests business managers prefer not to communicate with the computer-literate. In my experience, some 40 years in and out of information systems, I find the typical "IS wonk" usually more interesting, better-rounded, and broader intellectually than the diminishing breed of B.C. (Before Computers) managers.

Yes, many workers do not like group team-building activities. Yes,

many programmers would rather program than watch football. Is this bad? The day is here when the computer literate are the culture—the computer-illiterate make up the subculture.
WILLIAM A. WEIMER
Asheville, N.C.

Regarding Mr. Poole's article, I would like to suggest that anyone who accepts a generalized assertion regarding the attributes of any segment of humanity is likely to be misguided. Applying a disparaging label to all practitioners of a particular discipline does not strike me as a reasonable first step in establishing rapport with that group.

JOHN R. BROWN
Granger, Ind.

■ Did Huber Go Wrong?

In answer to the question "Where Did George Orwell Go Wrong?" (Dec. 5), Peter Huber has provided only a partial explanation: Technology has a liberating, rather than repressive impact on society.

Technological development of the sort Huber discusses (and Orwell imagined) is not a given. Only a society which permits creative and intelligent entrepreneurs, scientists, etc., the freedom to act on their ideas can expect to make any significant advances. Even if one assumed that a despotic megastate appropriated this technology after it had been developed, the state would eventually lose the ability to maintain this high level of achievement if it did not provide a certain degree of intellectual freedom.
GREGORY MONTE
Jersey City, N.J.

■ Money Grows on Trees

You boys just keep pumping up all aspects of the IT professions. My line is tree worker, and the more over-paid yuppies (of all ages) there are, the better business is for me. But then, the more rich folk there are, the better business is for everybody. They buy things and they put people to work. When our nation develops IT capacity akin to that described by Peter Huber in your excerpt of his most recently

published book (*Orwell's Revenge: The 1984 Palimpsest*), there will be even more demand for services from the likes of me.

DAN MARTINEZ
d.martinez6@genie.geis.com

■ Efficient Typewriter

My problem: ASAP is subheaded "A Technology Supplement" to Forbes. It should be subheaded "The Computer Supplement for IT Middle Managers, or Those in the Computer Business."

There must be dozens of publications for this lot! And, I have people reading them because that's what they're supposed to be upon. I view, for myself, the computer as an efficient typewriter for travel and a few other bits-and-pieces.

JOE POVEY
Washington, D.C.

■ Byting Back

"Brave New Mouth" ("Tid-Bytes," Dec. 5) did an excellent job presenting the rapidly advancing future of dental technology. Dr. Goldstein's comments are words to live by. However, the article had a tone that ignored present technology, in other words the base line of the author's views on dentistry were firmly rooted (purportedly) in the past.

My patients tell me on a regular basis that the drill (handpiece) and Novocain (local anesthetic) are so much better now than in years past. Today's fiber-optic air-turbine high-speed handpiece is light-years beyond the belt-driven drill the article's author seems to feel is still in use. Local anesthetics are worlds ahead of the old "stinging" of Novocain or Procaine, which hasn't been used for nearly 40 years. High-speed X-ray film and machines have cut radiation exposure significantly since the era the author depicts.

R. SCOTT DEBRUIN, D.D.S.
Enosburg Falls, Vt.

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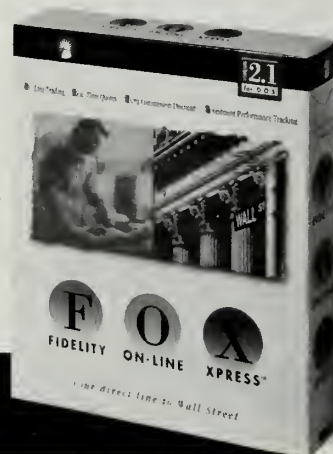


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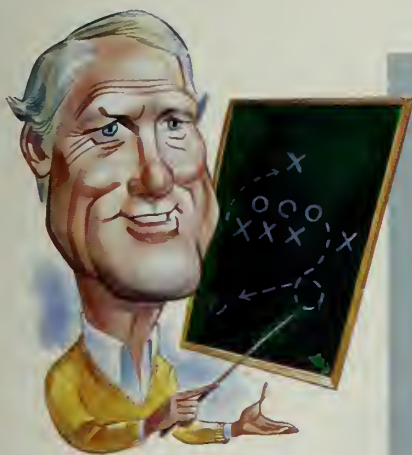
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INFORMATION, PLEASE!



When analyzing intelligence, the point isn't to be infallible. That paralyzes. Be quick—and be right more than wrong.

IN AN INTERVIEW with *Newsweek* late last year, then-CIA Director R. James Woolsey made an interesting observation about the nature of organizations: "I very much believe something Admiral [Hyman] Rickover once told me," Woolsey said. "'Always use the chain of command to issue orders, but if you use the chain of command for information, you're dead.'"

Rickover was absolutely right, and Woolsey is smart to pay attention. Nothing is more essential in leadership than knowing how and where to get information, developing it, analyzing it, then knowing how to use it.

The problem is, as Rickover recognized, the channels that might seem most dependable are anything but. Unfortunately, there's no guarantee that simply going outside the chain of command will yield any better information. Karl von Clausewitz, the Prussian military strategist, pointed out that you can't ask a private what's happening on the battlefield, because his fear, anxiety or exhilaration consumes his attention and colors his information.

On my own version of the battlefield, I see this problem all the time. Ask a lineman what the situation is right in front of him, and four out of five times what he tells you won't be even close to accurate. If anything dra-

matic has happened to him—a missed block that resulted in the quarterback being sacked, for instance—that event will so dominate his impressions that he may see everything negatively. The same can be said of a coaching staff: Even a coach watching the game from high in the press box, someone whose job is pure observation, may sometimes not understand what he's seeing. The disconcerting fact is, no one can give you pure, unbiased information all the time—whether it's someone out in the field or your most trusted lieutenant.

You have to be willing sometimes to discount what may seem like important information and depend heavily on your instincts. You'll never absolutely master the analysis of information—it's a very inexact science. But you can pinpoint where you had good intelligence and didn't go for it, or where you had the wrong information and believed it. The point isn't to be infallible, but to be right more than you're wrong.

Even if you can't ever be completely sure of what you're hearing, there are still ways to minimize the effects of faulty information. Over time, you'll begin to identify the people whose information is more dependable. When I was coaching the 49ers, then-backup quarterback Steve Young

was very good at seeing clearly what was happening on the field. Even when he was in the game, his assessments were usually accurate. The ability is a gift, and you need to look for people who have it.

When you find a core group of dependable people, you have to create an intelligence network and sharpen its skills. Others need to know what kind of information you're looking for, and you have to "pool" their reports so that you can average them out. It's also vital to understand your sources: What's the extent of their exposure to information, and how might their personal situations affect them? When a salesperson tells you things couldn't be better, how much does that judgment have to do with personal happiness over something else? The big question is: Does this person know what he doesn't know?

Understanding the warping effect of enthusiasm on information is tremendously important. I remember a game San Francisco played in 1988 against the Phoenix Cardinals. Late in the game, we had the ball, third down and three yards to go for a first. If we made it, we'd run down the clock and win the game. Steve Young was in at quarterback (yes, the same man whose information was so solid), and during a timeout he said emphatically that he could run a bootleg to the left and run for the yardage. Young is fast, and his confidence swayed me, despite the fact that I knew the Phoenix defensive end on that side was the fastest lineman on their team. So we ran the play, Young was stopped short, we had to punt, and the Cardinals ended up winning the game.

That was a memorably painful way to learn the importance of separating emotion from information. I wish I could say I never let it happen again.



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ARE YOU *open* TO SOME REALLY NARROW-MINDED THINKING?

Go ahead and be intolerant. The next time someone brings you the same old mass media solution to your niche marketing problem, close your mind. Shut the door. There are just too many good new alternatives available, and if the people you're relying on for advice don't get it... well, they just don't get it.

You see, good creative and strategic thinking isn't coming from the same places it used to. It's not coming from those who have served the mass-producing captains of the industrial revolution, but from a new breed born of the entrepreneurial explosion of the 1980s. They're technology zealots who instead of beating a path to Madison Avenue are racing their way to The Information Highway.

Big bureaucratic ad agencies are organized around messages to the masses. They're not flexible enough to deliver customized communications to niches. And even the hot creative shops who in the past have given us some entertaining mass media moments won't rule in the niches-within-niches world. As markets and interests become more highly specialized, the customer on the other end demands both style and substance.

When the niches narrow, the content must run deep. Mass media appeals to a low common denominator. That's why it's characterized by the trick, the tease and the fashion statement. But when the message requires depth, or the issue of intangible value an explanation, it requires a different set of creative skills. Skills of increasing importance to you as media becomes interactive and customers choose to consider your messages on-demand.

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FIRE YOUR MIS DIRECTOR



THE PRODUCTIVITY paradox is alive and well and living in your company. Though it has been well documented by the likes of Stephen Roach of Morgan Stanley, not much has been done about it. Lots of dollars spent on productivity tools, and no productivity gains to show for it. It's time for heads to roll. Enough of the CYA and finger-pointing at suppliers or software application vendors. Fire your MIS director—the whole department—and immediately start over.

"I'll just outsource MIS functions," you slyly figure, "and rid myself of all this nonsense." WRONG ANSWER. "I'll just send the entire MIS department to conferences to update them." WRONG ANSWER. "I'll just, I'll just... you're right, I'll fire them all."

It's about time. These folks have been schmoozed by the best of them for years. Worse yet, they have been warned from within that if they screw up, as measured by quantity of complaints, they would be fired. Rare is the MIS director financially motivated by productivity. More likely, they are demotivated by stress over failure. This has resulted in the lemming approach of taking the easy way out: Everyone else is buying big databases; I should as well. Everyone else is downsizing, upsizing, rightsizing; so should I. The concept of information technology as a tool to increase the output of your company remains just a concept. What a shame.

So go out and find some young pup, the grungier the better, snobby education optional, and install that pup as MIS director. Actually, make it

And go hire a Computer Dude. Let him or her loose, with free rein to change everything.

Info Guru or Computer Dude—opt for the less respectful title. Now let him loose, with free rein to change anything and everything in the use of information technology at your company. If you had any guts, you'd let him change the entire management structure while he's at it, but that's your job.

Anything not nailed down, and even things that are, can go. Ninety days is all it will take. I guarantee (but try to collect) that after the first three weeks, your IG will know more about how your company's information flows than anyone, including all those expensive consultants. It will all be diagrammed and ready to be attacked (gurus don't reengineer, they attack!).

Your company, with respect to the outside world, does one of three things with information: 1. hoards it; 2. filters it; 3. sells it. Your IG will figure this out quickly and match systems to function. The hoarding function can stay on legacy systems. Who really cares? It is touched only by a select few in white lab coats anyway. It's the filtering and selling of information that require finesse.

Filtering is mainly an internal function, requiring client devices

(read: PCs) to be able to connect to appropriate information servers to apply your own special inspection line. I like it, I'll use it. I don't like it, I'll pass it on to the outside world.

Lest I be accused of making this stuff up, there is an actual case study to provide support—well, sort of. Chiat/Day, the ad agency inspiration for the ever-annoying "thirtysomething" TV series, made a similar edict. Jay Chiat was written up on these very pages for stimulating the idea to make his company's operations run as a virtual office. Chiat/Day would use technology to replace not just paper, but the office itself. Laptops replace desktops, cellular phones replace wired phones, and if for whatever reason you actually have to be in the office—the physical one—for human contact, brainstorming, etc., you would be issued a locker. (Sounds like those nightmares of never graduating high school.)

Chiat/Day's Info Guru was Steve Alburty. Rather than firing himself, it seems, he fired his old responsibilities and took on new ones. Jay Chiat smartly gave him and the company a six-month deadline. No committees or evaluation period or department-by-department transition. Instead, it was unplug the old, bring in the new.

So what's the verdict? Bad news and good news. Productivity hasn't increased yet. Supporters say there's a learning curve; detractors say, I told you so. The good news is that in addition to being an ad agency, Chiat/Day now has a consulting service, helping others "fire their MIS directors."

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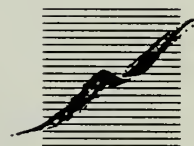
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Singapore Unlimited



Snow big deal: In Jackson Hole, Rosenman minds the store.

Wired Promoter

Escaping from Manhattan canyons to Wyoming ranges has been a slow trip for Woodstock co-producer Joel Rosenman.

Cell phones on the slopes are one cost of doing business.

Breaking away has been hard to do for Joel Rosenman, 52, a longtime venture capitalist who recently coproduced Woodstock '94. In theory, he's already done it. In reality, he's still in the process.

The process began one unusually warm December night in 1980. Rosenman and his wife Kathy were

playing backgammon in their New York apartment, in the Dakota building on Central Park West, when they heard several loud pops from outside.

"Was that a backfire?" Kathy asked. "No," said Rosenman. "That was somebody emptying a handgun."

Later that night, the Rosenmans learned that John Lennon, their

neighbor, had been murdered in the entrance they used every day. Kathy turned to him and said, "Let's get out of this town."

Rosenman says the shooting led to "a quantum decrease in our sense of safety. We felt even more vulnerable because our first child, Molly, had been born the previous year." But pulling up stakes from Manhattan, where there's a deal around every corner, was not an easy decision for Rosenman. "Scary," he says. "New York was where I had lunch, played squash and learned about new deals. It was where my partners were."

Rosenman calls himself a venture capitalist, but he's also been handling leveraged buyouts for years. (At the time of the Lennon shooting, he was working on the buyout of TSC Industries, owner of a chain of stores that sells hardware and farm supplies.) Rosenman's path into the business world was almost crazily accidental. In the late 1960s, he was an unhappy corporate lawyer out of Yale with show-business aspirations that led him to moonlight as a singer in small clubs. His friend John Roberts was similarly lukewarm about his pending career as a stockbroker. So they began to talk about teaming up in some more creative field.

Rosenman and Roberts wrote a TV treatment about "two guys with more money than brains who got into nutty projects every week." An agent loved it, but asked what kind of businesses these guys would be involved in.

Rosenman and Roberts hadn't thought much about that, so they ran a classified ad in the *New York Times* and the *Wall Street Journal*: "Young men with unlimited capital looking for legitimate and interesting proposals." The response was overwhelming—and most of the projects were hilariously unlikely. But the magical (and mythical) mention of "unlimited capital" had revealed the energy of the venture capital deal flow in New York and seemed a better bet—and just as much fun—as trying to sell scripts to Hollywood.

At the peak of the VC business,



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their portfolio had up to \$10 million of invested capital, and the partnership claimed holdings in six companies with combined sales of \$250 million. "We have a Rolodex of 100 wealthy individuals who invest with us," Rosenman says.

With business hot, the family's dream of permanent escape was deferred. But during the 1980s, the Rosenmans and their two children (Molly, now 14, and Ned, 13) found that their happiest times were spent skiing in places like Vail, Aspen, Sun Valley and—most appealing of all—Jackson Hole, Wyo.

In 1990 the Rosenmans finally moved to Jackson Hole (population 13,800). "Our venture capital and LBO business was slow because valuations became so high in 1989 and 1990," says Rosenman. "We thought the market was over-optimistic. I figured I could do just as good a job rejecting proposals in Jackson as in New York City."

Rosenman's original plan was to spend one week a month in New York, but life—and business—interfered with that idyllic scheme. For the last two years, he has spent three weeks out of every four in Manhattan, making a mockery out of one of his stated reasons for breaking away: to spend more quality time with his family.

What had gone wrong? Woodstock '94. Rosenman and Roberts were two of the four producers of the original Woodstock festival in 1969, and their Woodstock Ventures has owned the rights to the Woodstock name and logo ever since. When he talks about the original festival, Rosenman is less wide-eyed counter-culture than bottom-line brutal. "Woodstock was a business venture that originally lost money and was incredibly difficult to manage," he says. He notes that, for Woodstock Ventures, the proceeds from the live part of the event were \$1 million of debt and 70 lawsuits, filed mostly by local property and business owners. Some were settled, but most were dropped. With film rights and royalties, Woodstock Ventures finally started making money on the Woodstock phenomenon in

CYBERGEAR FOR WY AND N

"the latest, the lightest and the smallest," Rosenman says of his equipment. "I don't get back on a couple of pounds it's worth it, especially when you're running from gate D1 to gate B14 to catch a prop plane at the Salt Lake airport."

LAPTOP His Toshiba 13400CT computer, a 486/33, weighs less than four pounds. It has a 250

MB hard disk, close to 500 MB with compression. He has 20 MB of RAM. A PCMCIA interface gives him another 270 MB of storage.

FAVORITE PIECE His Motorola MicroTac Ultra Lite cellular phone. "With it, I never have to worry about being near a phone. It's very liberating. I love Motorola."

COMPLAINTS "I need more slots. I have a modem, scanner, CD ROM and external

hard drive [171 MB]. I do so lots of card swapping goes on." He plans to upgrade to a Pentium with the chip's problems got cleaned up and the machine become lighter.... The scanner, an HP Scanjet 3P, resides at the University Club. The New York office has a 486 PC, fax and two printers (LaserJet 4M, a Canon BubbleJet 10ex fallback).

1980.

For the second Woodstock, Rosenman, who looks like a gracefully aging rock star, would make sure that nothing was left to chance. That meant relying on face-to-face meetings.

"Especially when you're working with new people," says his partner John Roberts, "you have to be in the room with them. You need to get a sense of their body language. You want to see how they respond when you blitz them in a set of tennis."

In New York, Rosenman lives at the University Club, a home away from home that, with travel expenses, costs him about \$50,000 a year. In Jackson, he lives in a 3,000-square-foot home at the base of the Tetons, less than a mile from his office in the Teton Pines Country Club. The best skiing in town—with the nation's greatest vertical drop at 4,139 feet—is 15 minutes away by car.

Rosenman often gets in a few runs at lunchtime, but he retains his New York workaholic style. "Joel is a technology freak," says Roberts, "and he refuses to go skiing without his cellular phone. Sometimes I'll call him while he's skiing just to annoy him. You'd have to shoot me to get me to bring a phone on the slopes. With Joel, I think it's a combination of guilt about being out there and fear of being left out."

Rosenman disagrees, claiming it's the technology that lets him be out there in the first place: "The phone gives me the freedom to go skiing, the ability not to worry about what I might be missing back at the office."

And Rosenman has used technology to transform himself into a powerful roving office. His Toshiba sub-

notebook, which sports a red and white Woodstock '94 bumper sticker, contains every contract related to his companies' current work.

When he travels, Rosenman is notoriously productive. "I think those are his most efficient days," says Roberts, "at least judging by the mountains of paper he hits me with when he lands."

Rosenman, clearly, is still wrestling with the subtleties of maintaining a long-distance business relationship. "Sometimes I know that being away for a while gives me more perspective," he says. Other times, though, being away just makes him feel out of the loop.

"There's absolutely no deal flow in Jackson," he says wistfully. "In fact, if you're not in real estate or tourism, it's hard to make a living out here."

But, oddly enough, that may be one reason Rosenman prefers Jackson conversation to that of New York. "This is not a very materialistic place. People are much less concerned with whether Woodstock was a financial success than whether it lived up to my expectations."

From a business standpoint, the Wyoming years of Rosenman's life have been enormously successful. The response to Woodstock '94—with co-producer Polygram Diversified Entertainment shipping 600,000 record units last fall—has been so great that Rosenman is still spending much of his time back East, working on Woodstock spinoffs—books, films, videos and a theme restaurant.

Thus far, the only problem with Rosenman's Wyoming years is that he's spent so much of them in New York.

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EMI Technology brings the music giant a whole new spin

In the music business, dictated by the rapidly shifting passions of fans and the whims of radio jockeys and MTV, music retailers depend on the supply chains of the record labels to make sure the music is in the bin.

by Glenn Rifkin



Jeff Abrams, the vice president of merchandising for Best Buy, the \$5 billion Minneapolis-based electronics superstore chain, knows about compact disks.

Best Buy is rapidly becoming one of the largest music retailers in the country, carrying up to 65,000 different CD titles in some of the largest of its nearly 200 stores. And after nine years of building Best Buy's music division, Abrams knows firsthand what it's like to deal with the major record distributors. Particularly EMI Records Group North America.

With an array of hot recording stars such as Garth Brooks, Janet Jackson, Bonnie Raitt, the Beatles, the Rolling Stones and Pink Floyd on its affiliated labels, the New York-based unit of the

\$2.2 billion London-based Thorn EMI clearly has what customers want. But getting it to the stores has been a long-playing nightmare. "Not too long ago, they were absolutely the worst," Abrams says succinctly about EMI, one of the three largest companies in the industry, with a 15.5% share of the market. "They didn't have a system to measure demand, they weren't manufacturing to demand, and their distribution system was archaic. They were a frustrating company to be involved with."

Cema, EMI's distribution arm, didn't have a distribution replenishment process for its customers, so retailers like Best Buy could only wait with fingers crossed when opening EMI shipments. More often than not, orders would be only partially filled.

Abrams recalls that each week Best Buy would distribute an eight- to 16-page color advertisement to local newspapers promoting special CD and

video sales. The ads would be negotiated three months in advance with the record companies, to be sure the merchandise would be in the stores. But it didn't always work out that way. "We would get close to the ad date and notice EMI hadn't shipped any of the titles they put in the ad," Abrams says. "And they were paying for the ads themselves. So we'd have to jump through all sorts of hoops and get the merchandise air-shipped in at the last minute if we could."

But music retailers are no longer singing the EMI blues. With an overhaul of its manufacturing, distribution and information systems, EMI has eliminated many of the costly bottlenecks that frustrated artists and customers, and is moving its products to stores much more quickly and accurately.

In the music business, dictated by the rapidly shifting passions of fans and the whims of radio jockeys and

MTV, music retailers depend on the supply chains of the record labels to make sure the music is in the bin when the customer comes in. The best distributors, such as Sony and Warner Records, can usually react and ship product in three to five days.

At the bottom of everyone's list sat EMI, which set the standard for futility, often requiring as much as 20 days to turn around large orders (of tens of thousands or more). Retailers, in order to avoid stock shortages, traditionally front loaded, or beefed up initial runs on hot new releases—knowing they could return overstock for full refunds.

The returns business, especially in EMI's archaic supply chain, became a massive and costly bottleneck. Partially filled orders require a second shipment, at additional freight costs to EMI, to fill the rest of the order. They

also require picking and packing the second part of the order. According to Joe Kiener, who is spearheading EMI's supply-chain reengineering, 80% of what is returned is simply excess inventory; it's not going to be put back in the warehouse, so it gets scrapped. Cema tossed about 10 million units each year. The company estimates it was losing as much as \$15 million annually in unnecessary returns and overstock.

Its order-fill rate, at 81%, was low enough that stores expected that they wouldn't get what they had ordered from EMI. Millions of dollars more were wasted on extra transportation costs for back orders that hadn't been filled correctly the first time. Cema was selling out its average inventory a dismal three times a year, and the regional warehouses were filled to overflowing with inaccessible and often outdated inventory.

Worse yet, a touring pro such as Richard Marx or a hot new group like Arrest-

ed Development would often check local record shops while on tour, only to find their CDs weren't on the racks. This created a hornet's nest in the emotionally charged music business, with irate managers jamming EMI's phone lines.

"When I started 3½ years ago, I spent 50% of my day fielding angry phone calls," says Matt Constantino, manager of the company's Greensboro, N.C., distribution center.

Handling hits was tough enough, but catalog orders, for both recent works and older recordings, called deep catalog, make up 40% of the company's sales. So with new artists targeting releases for Christmas and retailers stocking up with perennial favorites such as Frank Sinatra, Pink Floyd's *Dark Side of the Moon* or the Beatles *Sgt. Pepper*, the bottleneck during the fall has traditionally been overwhelming for EMI. "In 1992, we were not systematically equipped to meet those demands in the fashion we

should have," says

Reengineers: EMI's Joe Kiener (previous page), Don Harder (l) and Chairman Charles Koppelman shook up the system for getting hits into high gear.



Kiener.

EMI also earned a reputation for regularly derailing special promotions with its retailers. EMI's eight individual labels, which include Capitol Records, Liberty Records and Angel, would spend thousands of dollars on cooperative advertising featuring a special sale of certain CDs and then fail to deliver them on time to the store.

Central to its woes was EMI's primary business information system, a 20-year-old IBM 3090 mainframe-based maze of outdated applications and millions of lines of indecipherable spaghetti code, some of which dated back to 1969.

Don Harder, EMI's chief of information technology, explains: "Our current IT system basically supports three configurations: long-playing vinyl records, vinyl singles and eight-track cassettes. We've spent years working around those systems to accommodate the modern music business like CDs."

On top of that, EMI had its share of morale problems. Each element of the supply chain was isolated—sales dictated to manufacturing, which handed off to distribution. Customer service was an island. This led to inevitable finger-pointing between departments when problems arose. "Culturally, there was that kind of passing-the-buck attitude," says Kiener, who was formerly chief executive of EMI's Chrysalis Records label.

TECHNOLOGY UPDATE

After years of frustration, EMI, beginning in the fall of 1992, initiated a major reengineering of its entire supply chain, a project that has already begun to pay dividends in under two years.

The overhaul spans everything from manufacturing to distribution to

returns, including an update of the entire information technology infrastructure. The company is moving its operations off the mainframe onto IBM AS/400 midrange systems running J.D. Edwards inventory and order management software. The transition of the primary business system is

overnight from 1,000 a week to 50,000 a week in July 1994. They also were able to manufacture and ship three million copies of a Garth Brooks greatest hits record in less than two weeks in November, anticipating big holiday sales.

EMI's order cycle, meanwhile, has dropped from 20 days to two or three days for hits, and three to seven days for deep catalog.

"In the last year, they've gone from last place to one of the best," along with rivals Sony and Warner Brothers, says Best Buy's Abrams. Best Buy, which did \$40 million in business with EMI last year, is now seeing improved order-fill

EMI AT A GLANCE

COMPANY EMI Records North America, a \$2.2 billion record distributor and unit of Thorn EMI of England

ACTION Reengineered its entire supply chain and updated its IT infrastructure. Is moving operations off a 20-year-old mainframe onto IBM AS/400 midrange systems running J.D. Edwards inventory and order management software.

WHY EMI's delivery times were dreadful, often as much as 20 days for big orders, and the company couldn't handle returns efficiently. Its order fill rate was only 81%. Retailers began demanding better service.

WHEN The overhaul started in 1992 and the transition of the primary business system is about 85% complete.

RESULTS Already, customer order-fill rates have jumped to 99% from 81%, labor productivity has increased 30%, and peak on-time delivery rates have risen to 99% from 90%.

about 85% complete.

Gone will be the 100 programming hours required to add a new record label to the system. With the new software and hardware, new labels can be added in less than an hour, Kiener claims.

Already, EMI's labor productivity in distribution centers has risen 30%; its peak on-time product delivery rate has grown to 99% from 90%; average inventory is selling out 5.7 times a year rather than three; and manufacturing-driven order problems have virtually disappeared.

A \$6 million expansion to its Jacksonville, Ill., manufacturing system has reduced the amount of contract manufacturing, or outsourcing for CD and cassette replication, that EMI has had to pay for. Kiener figures the company has already saved \$7 million in outsourcing fees annually. With costs coming down, Kiener increased EMI's CD manufacturing capacity from the industry-standard 80% of demand to a whopping 120%, so that the company could handle unforeseen "demand spikes" created by a hit artist like Mazzy Star, an alternative pop band whose CD sales leaped practically

rates, increased accuracy in forecasting retailers' needs and little or no problem getting CDs on time for special cooperative advertising promotions.

"In the past nine months, the problems have gone away to the point where they're not an issue anymore," adds Lou Mann, senior vice president of sales at Capitol. "I don't even look at the product fill report anymore."

"The reengineering effort has brought a tremendous level of efficiency to our entire North American supply chain process," says Terri Santisi, executive vice president and general manager of EMI Records Group. "It takes less than 15% of the time it used to take for us to get the music to our customers."

Santisi pointed to this past Christmas season for two striking examples. Two releases, the Garth Brooks anthology and the Beatles *BBC Live Tapes* took off as soon as they were released in early December. Demand was so strong that Garth Brooks immediately leaped to No. 3, and the Beatles to No. 7, on the *Billboard* Top 100 chart.

"We were turning around Garth

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Brooks and the BBC Tapes in two to three days. The average turnaround time used to be 10 to 15 days," she says.

DEMANDING CUSTOMERS

What, after all these years, gave EMI a wake-up call? The recognition that the industry itself was changing dramatically. The retailers, now sophisticated users of technology, were demanding faster, more efficient service. They wanted smaller orders delivered quickly and directly to retail outlets rather than to regional distribution centers. Such demands simply couldn't be met by the EMI of old.

Business practices that drove the process, often based on intuition and gut feeling, are now shaped by data. Technology offered by such new companies as Soundscan, a Hartsdale, N.Y., music tracking firm, suddenly puts hard figures on unit sales at every retail counter, by measuring actual sales instead of relying on the old method of phone interviews with salesclerks.

Another system, called BDS, captures radio airplay and replaced telephone interviews and disk jockeys' hand-kept logs. These systems changed the way *Billboard* reported its top hits and retailers tracked the sales of CDs. And record companies began to realize that they could no longer afford to be wrong so often.

Kiener has worked swiftly to correct crucial problems, particularly with Cema, the EMI distribution arm. Cema, which is based in Woodland Hills, Calif., in 1991 brought in CSC Index consultants to help in the supply chain redesign. That resulted in an overhaul of Cema's three main distribution and manufacturing sites

in Jacksonville, Los Angeles and Greensboro.

Cema President Russ Bach, a music distribution expert who joined Cema in 1989 from Warner's WEA distribution unit, says what he discovered at Cema was "awful," a physical system in total disarray. Cema had three full-service ware-

find out by not receiving what they wanted," Kiener explains.

Cema instituted a state-of-the-art warehouse automation system in Greensboro, where it shifted its entire back catalog inventory. The Greensboro plant also acts as a regional "hit" warehouse, along with Los Angeles and Jacksonville, filling orders for the 500

"hot" high-volume releases.

With new CI manufacturing equipment in Jacksonville and new priorities clearly in place at each site, Cema has succeeded in wiping out the last vestiges of its poor reputation. "They've made a major improvement," says Kim Strawser, a consultant with Ernst & Young

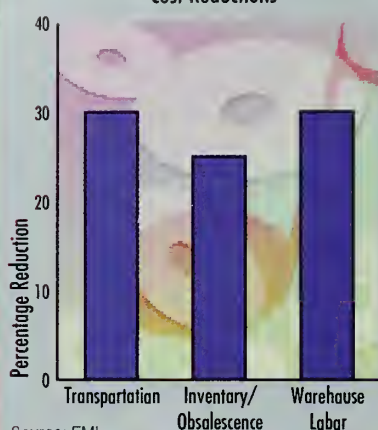
in San Francisco. "And even before any change was noticeable, the perception from customers that they are attempting to make these changes was a positive lift. It raised EMI's esteem in the eyes of the customer. Now they have to sustain the effort."

Peter Blei, chief financial officer of Spec's Music, a 59-store, \$78 million Florida chain, calls the new Cema system "extremely impressive, sophisticated automation." Blei points out that handling misshipments is the retailer's nightmare. "The cost is astronomical," he says. "You have to stop normal flow and handle the exception."

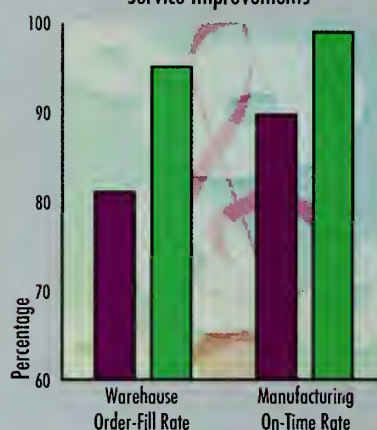
Constantino, the manager of EMI's Greensboro plant, says that in the past, it took 24 hours to receive and shelve a new shipment of CDs. Now it's less than four hours. More important, he says, customer order-fill rates are now up to 95% from a dismal 80%. "When you're not spending time filling back orders, it gives you more time to fill new ones," Constantino says.

Before and After EMI's Supply-Chain Overhaul

Cost Reductions



Service Improvements



houses, each stocking every item in the EMI line, the equivalent of 10,000 stock-keeping units. None of the products were housed in any reasonable order. Kiener says that 500 of the 10,000 SKUs made up 80% of the volume, but hot hits could be stuck on the highest shelf in an obscure corner while old, dusty catalog items would sit on prime shelf space. The California warehouse, for example, needed 80 stock pickers to wander the aisles and search for titles amid an average inventory of seven million units. That number has been reduced to 1.5 million units, handled by 17 people.

Cema's order entry capability was so antiquated that a store ordering the *Sgt. Pepper* CD wouldn't know immediately whether it was available. A modern system would tell a customer the availability up front and provide a target date for delivery. At Cema, such an order generated a paper form, and a warehouse picker would go out to search for the product. If the title was unavailable, "the customer would



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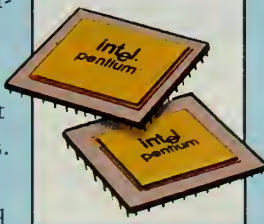
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OS/2

Is it really time to consider OS/2 Warp, the latest version of IBM's operating system? Or should you wait until later this year for Microsoft to finish its next-greatest graphical operating system, Windows 95?

by David Strom

You would think such a simple question would have a simple answer, but picking the right platform for your desktop computers has many shades of gray.

First, some history. IBM and Microsoft once shared the same vision, and birthed OS/2 to the world in 1987. This world was very different from today's: Windows was still a minor curiosity, DOS was king and Unix was still a four-letter word to most corporate IS managers.

This first version of OS/2 was notable for three things: It didn't sport any graphical user interface (that would come later); it ran multiple programs concurrently (what is called multitasking); and it required lots of memory and machine resources to run.

Then came the divorce. IBM and Microsoft went their separate ways, and the war over the desktop began. Windows took off like a rocket, while IBM plodded along with OS/2.

Last fall, IBM announced its third major version of OS/2, known by its code name, Warp. Microsoft has yet to ship its response, although it should show up sometime this year.

So how to decide between the two? Here's our guide.

WHO SHOULD USE OS/2?

Most of our contacts agreed that OS/2 is not for everyone, and is best suited for the "power user" crowd, those busy folks who value their time highly and need to do more than one thing at a time on their computers.

Foremost, OS/2 gets high marks from software developers and other in-house programmers. "You can have sessions open for coding, compiling and testing all at the same time," says

Jeff Meyer, a systems consultant for Hewitt Associates, Lincolnshire, Ill. Meyer supports more than 1,400 OS/2 desktops at his benefit and compensation con-

sulting firm.

"OS/2 is used strictly for people who really need to multitask," says Katherine Epes, a consultant with an international financial institution headquarters in Washington, D.C. Epes has 6% of her desktops running OS/2. "Our developers and accounting folks need to run multiple main-frame and minicomputer sessions."

But developers aren't the only ones who need to run several programs at once. Dwight Scott Miller, a longtime user of OS/2 who heads his own consulting firm in Bryan, Texas,

says, "The main users are clerical support

personnel

with

multide-

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bilities as

well as system

administrators and

developers. In each

case, the need is for

multiple open tasks that

run reliably for long periods

of time." Miller's clients have

about 20% of their machines

running OS/2.



And even the less techno-savvy can benefit from OS/2. "Our newest OS/2 users tend to be in the marketing and support areas," says Bruce Wells, vice president of development for Radio Computing Services, Scarsdale, N.Y. "They can perform housekeeping and troubleshooting functions on one client's database while getting records of another client. With DOS, these diagnostic tasks would tie up the machine for up to half an hour." Wells supports more than half of his 35 users running OS/2.

Another big advantage of OS/2 is what IBM calls crash protection. Windows is notorious for frequent system crashes, and OS/2 offers a way around this. Again, software developers were the first to figure this out. "Developers can test applications at the same time as they are running multiple code editors, and be secure that nearly all ill-behaved code will kill only itself instead of the whole system," says Miller, the consultant in Texas. "My machine came up in April 1993 and has not been down since unless I deliberately turned it off. It just runs and runs and runs."

Keeping machines up and running saves money over the long haul. "Users are primarily still running Windows applications under OS/2, and they appreciate not having to reboot the system when it hangs," says Jerry Stuckle, president of JDS & Associates, Raleigh, N.C. His clients altogether have several thousand OS/2 desktops, and Stuckle has had lots of experience with OS/2.

Not everyone agrees about OS/2's reliability, however. Epes, the Washington consultant, says, "Our experience with OS/2 has been that it is cumbersome, slow and unreliable." Her company updated to Warp, but has standardized on Microsoft Windows.

WHAT ABOUT WINDOWS?

Microsoft's current Version 3 undeniably has the lion's share of desktops and developers' mind share as well. Why buck the trend? "My customers don't want to wait to be able to run strong business applications well, quickly and reliably," Miller says. Since the next version of Windows

isn't yet shipping, his clients are sticking with OS/2.

"Each user decides on the operating system they want to run, rather than a dictate of company policy," says Wells, the development vice president, who has a mixture of DOS, Windows and OS/2 machines. However, he has found that "OS/2 creeps through the organization. One user will start with it, and then their neighbors will see what it can do."

Many people feel comfortable with Windows, mainly because the vast majority of applications have a similar look and feel. "We've standardized on Windows because its graphical interface is a better working environment for spreadsheets and word processing," says Scott Jangro, manager of technical support for Dragon Systems in Newton, Mass. Dragon has only about 2% OS/2 desktops. "If you put two machines next to each other, one running Windows and one running OS/2, most users would take a peek at the OS/2 machine but most would sit down at the Windows machine to work," Jangro says.

And for some applications, Windows offers better compatibility. "Applications that require Windows' virtual device drivers, such as Microsoft's Visual C++, don't run under OS/2," says Stuckle, at JDS. "This means that many developers are switching back to Windows for developing their Windows applications."

At Epes's company, "The original attempt to convert many of our groups to OS/2 didn't work because the operating system was more than they needed," she says. "Most of our users want multiple windows and not necessarily multi-tasking."

Wells advises: "If the user does only one thing, stick with DOS and Windows. If the user needs performance from the machine, then OS/2 is the way to go."

When it comes to the relative reliability of Windows versus OS/2, OS/2 is the hands-down winner: "We think OS/2 is much more stable than Windows 3.1. You have to go out of your way to hog the system or bring it down, while with Windows you have to go out of your way *not* to do these things," says Matt Gray, president of Hilgraeve in Monroe, Mich., and a longtime developer of OS/2-based communications products. "All our years supporting OS/2 have not been that lean. About 40% of our revenue comes from OS/2-based products."

Many corporate IS managers are worried about Microsoft's shifting loyalties as it brings out newer and newer versions of Windows. "I am tired of yet another Microsoft Windows applications programming interface," says Wells.

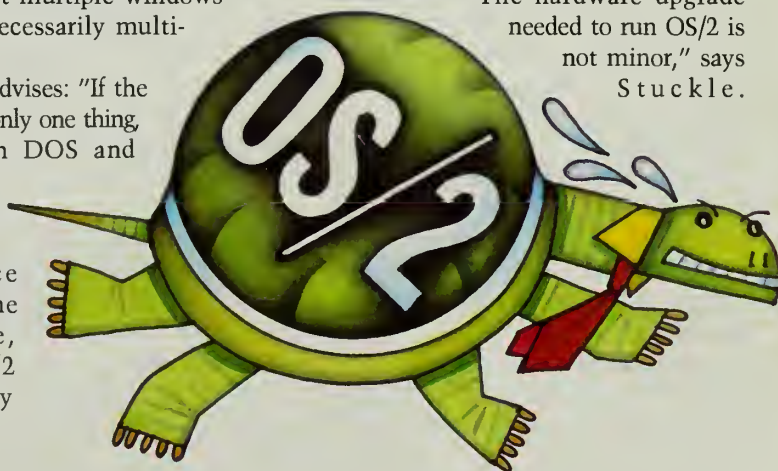
Microsoft has also been slower to release upgrades than IBM. "IBM has shipped seven revisions of OS/2 in the time that Microsoft has released just four for Windows," says Wells. "To me, this shows a commitment to OS/2 from IBM. I don't see the same commitment from Microsoft."

WHAT ABOUT WARP ITSELF?

Since its release last fall, IBM has managed to grab some attention. Warp is easier to install than earlier versions. "Our users find OS/2 much easier to use and configure than Windows itself," says Stuckle.

IBM claims that Warp will run "comfortably" in a four-megabyte machine, but most of our contacts were running it in machines with at least eight megabytes of memory.

"The hardware upgrade needed to run OS/2 is not minor," says Stuckle.



"The extra memory translates to at least \$200 to \$700 per machine. However, the typical payback is on the order of a few months, due to the higher availability of the OS/2 systems."

Many early users were highly impressed with the product. "I think Warp is a well-crafted product and I highly recommend it," says Miller. Stuckle calls Warp "very good."

IS ANYBODY WRITING NATIVE OS/2 APPLICATIONS?

IBM is in a bit of a quandary: Since OS/2 runs ordinary Windows applications well, there is little incentive for software developers to write native OS/2 applications. "Oddly enough, Lotus Notes runs better in a window under OS/2 than in the native OS/2 version," says Epes.

A few software developers, including Hilgraeve, have done well with OS/2. "Our OS/2 customers buy in quantity directly from us, so our cost of selling is much lower and our margins are higher," says Gray, Hilgraeve's president. "Plus, most corporate customers have in-house support, so we don't have to do as much support."

However, most software developers have concentrated on where the market is, and that means Windows. Corporate IS managers see this as a potential weakness of IBM's long-term strategy.

"IBM needs to support independent software developers better—these are the people that can make or break OS/2. So many times I have heard, 'There aren't any OS/2 applications available,'" says Stuckle.

"If I were IBM, I would be building better relationships with the application vendors," says Meyer. "IBM

needs to be more accessible and provide application developers with total continuous commitment."

But even IBM's own software development efforts have shifted to Windows. Indeed, last year *OS/2 Professional* magazine took it upon itself to market and sell one OS/2 product that had been developed, then neglected by IBM.



Bruce Wells, vice president of development for Radio Computing Services, supports more than half of his 35 users running OS/2.

Some developers are coming around, though. "Developers have suddenly woken up to the fact that Windows 3.1 is a kludge, while OS/2 Warp is a mature 32-bit OS," says Miller.

WHAT ABOUT NETWORKING?

IBM took several months to deliver its network client software for Warp. Despite this delay, some corporate IS managers see networking as OS/2's true strength.

"Networking, in my case, as an OS/2 client going to NetWare 3.x servers, has been flawless from the get-go," says Miller.

Stuckle agrees. "I've seen that Windows for Workgroups has had an impact on many users, as they want

an inexpensive network for sharing files." He says he would recommend OS/2 for anyone who needs network access.

Adds Wells: "IBM has really improved OS/2 to the point where you just have to install the network and configure your desktop. No memory management issues, no device driver and resident software conflicts. It really is a lot simpler."

OS/2's networking capabilities don't satisfy everyone, however. "The most troubling component of our OS/2 installations has been the Novell client software. We've played the role of mediator between Novell and IBM on more than one occasion. And we have run into some compatibility issues with Windows and networking applications on OS/2," says Meyer.

DOES IBM HAVE A CHANCE AT GETTING ANY MIND SHARE?

IBM has never been very proactive at marketing OS/2, especially compared with the resources that Microsoft has invested in

Windows. Will IBM repeat history with Warp? Opinion is divided.

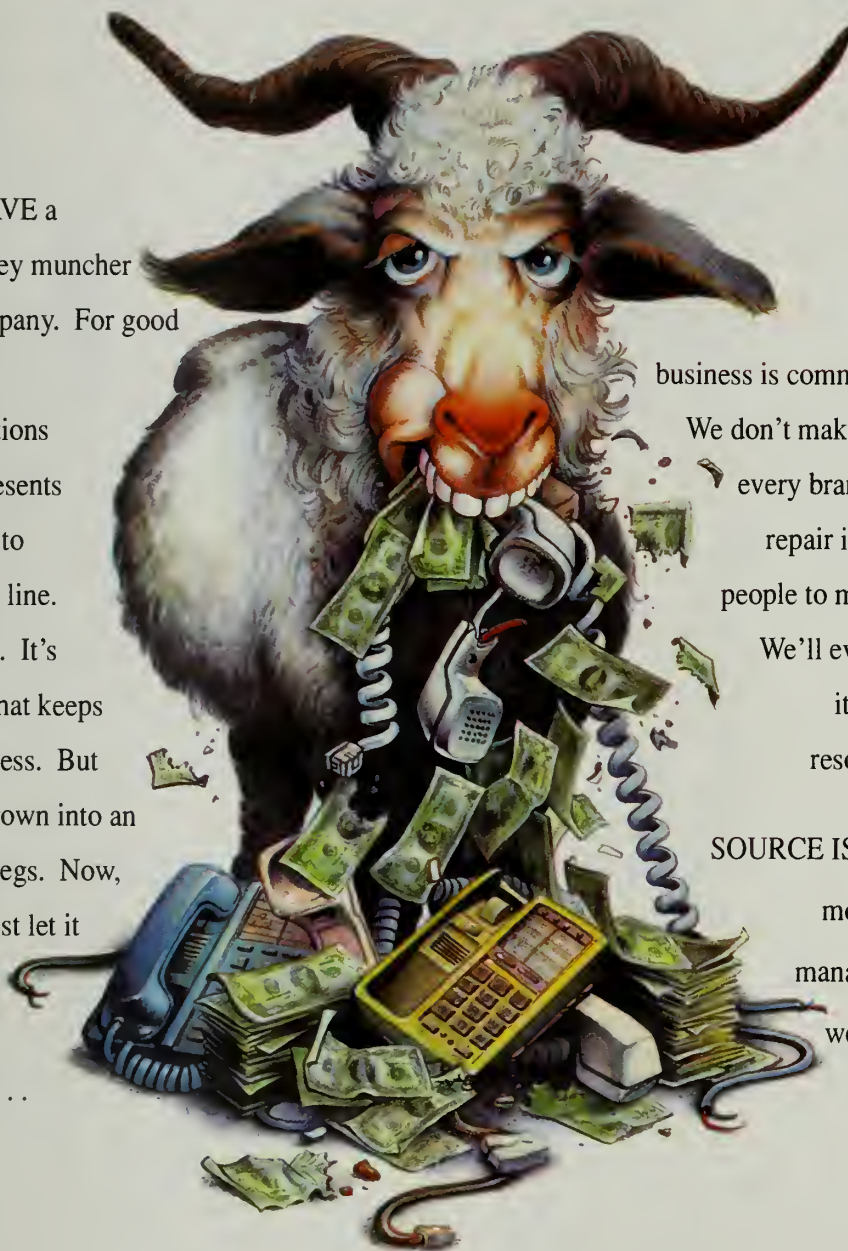
The final analysis has yet to be written and largely depends on what features will be contained in Windows 95. "Any analysis of OS/2 really depends on the operating system being compared," says Stuckle. "When compared to Windows, OS/2 is much more stable. Compared to DOS or Unix, has a better user interface. Compared to Windows NT, OS/2 requires few system resources."

David Strom is a frequent contributor to Forbes ASAP and runs his own consulting firm in Port Washington, N.Y. He can be reached via the Internet at david@strom.com.

IS YOUR TELEPHONE SYSTEM GOOD FOR YOUR BOTTOM LINE?

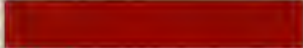
Na-a-a-a.

YOU HAVE a hidden money muncher in your company. For good or bad, your communications system represents a direct line to your bottom line. Voice. Data. It's the system that keeps you in business. But today, it's grown into an appetite on legs. Now, you *could* just let it eat more and more of your profits. . .



OR YOU CAN let SOURCE give you true accountability. Our business is communications equipment. We don't make the gear, we sell it — every brand and model. And we repair it. And we'll train your people to manage and live with it. We'll even store and distribute it so you can apply your resources more profitably. SOURCE IS HELPING America's most efficient companies manage their system as if it were one of their biggest assets. Which it is.

Don't let your telephone investment get your goat. Call SOURCE.

SOURCE


One can read a hundred books, magazine articles and white papers on the link between location and economic vitality. But Walter Wriston, former Citicorp chairman, said it best. He managed to distill a gigabyte of wisdom on the subject into a half-sentence in his 1992 book, *The Twilight of Sovereignty*.

In an age of ubiquitous computing and networks, Wriston says capital will "go where it's welcome and stay where it's well treated." Stop and let the phrase linger awhile. Describing capital, Wriston meant both money and the human variety, captured as knowledge and entrepreneurship.

Wriston was writing about the world, in which ideas and money flowing at the speed of light would render a country's borders and its central banks meaningless. But he could well have been referring to the U.S., too. Here Wriston's theory gets played out daily. Thanks to Article One of the Constitution, no trade barriers exist between states, nothing to stop the mobility of money, products and people. Even more, America is the land of powerful computers and networks, which accelerate free trade to the speed of light.

In this new, light-speed economy, what locations will capital—money, people and ideas—seek out? Where are the top places in America to start and nurture an information-age business?

Forbes ASAP investigated the question. Our research relied on 11 categories by which to rate America's 100 most populous metropolitan areas. Some of the categories—such as cost of housing and general education level—are familiar. To them we added new categories ascendant in the information-age economy, such as PC-to-population density, high-end brains and an area's "entrepreneurial zest." In our ranking system, five icons is the top score for a category; one icon is the lowest.

Telecom infrastructure will be hugely important,

too. But since all of the 100 metro areas rated are served by multiple fiber networks, we didn't differentiate. (Bandwidth access differences will more profoundly affect smaller cities and rural areas.) Instead, we provide a map of fiber-optic networks in the U.S., installed or planned, starting on page 50.

Cities below the 100 most populous aren't rated, but this does not imply diminished economic prospects in the information age. Many smaller cities such as Boise and Des Moines have a bright future indeed.

BEST PLACES SMART COMPANIES

ASAP rates the top cities for nurturing businesses that must compete in today's speed-of-light economy.

1 Salt Lake City
Surprise! When software prowess and family values are ascendant, the Mormons come out on top—with

high rankings across the board except in immigration. Top-end international talent doesn't exactly flock to the area, but the work ethic is strong and the regulatory environment sensible. The U of Utah gave us 3D computing; BYU produces stand-up citizens. Entrepreneurial role models include WordPerfect's Alan Ashton and Novell's Ray Noorda. Caveat: The region's crown jewel, Novell, is struggling at once with Microsoft management changes and merg-

er indigestion. If Novell slips, everyone suffers.

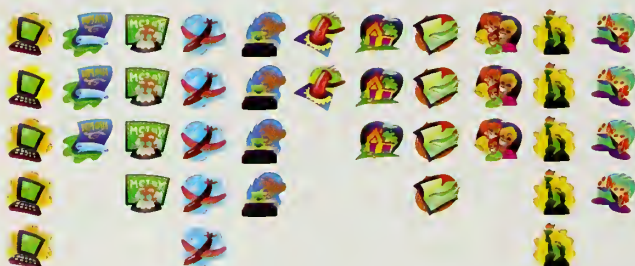


2 Houston With two Texans vying for this spot, we decided to lift Houston up to second place. Compaq is on a roll and big winners like that infect a city's attitude. Houston's one of the largest and busiest ports in the U.S., and has a diverse, international population. Moreover, Hou-

ton boasts a thriving cross-border trade with Mexico: Once the peso crisis blows over, Houston is well positioned to be a strong player in the global economy. However, the Texans lost the top spot to Salt Lake City because of a lower education level, crime and a climate for regulation/litigation (the last two sometimes being indistinguishable).



3 Dallas Though the Big D was beaten by Houston, it's a great place to start out, specially with the state in its current expansive mood. Texas universities and businesses are pushing hard to attract talent from the northeast, while the state economy is buoyed by a thriving cross-border commerce with Mexico. Like Houston, it has its info-age winners: EDS and resurgent Texas Instruments top the list. Add to that plentiful immigration, a population that's knowledgeable about computers, easy access to an airport, a can-do attitude and high energy. Dallas has low corporate and no personal income tax and, compared with other cities of the same size and sophistication, it's affordable.



4 Denver The two Western cities of Denver and Portland, among the best in the country in computer literacy and education levels, came in only a notch behind the Texans. Denver rated highly for entrepreneurial zest, for the intellectual boost provided by nearby Boulder and for an airport that, despite chronic congestion, is a regional hub. Cable king and billionaire John Malone makes conspicuous success cool, and governor Roy Romer can always call upon his son, economist and future Nobel laureate Paul, for advice on how to nurture dynamic economies. But be warned that taxes and living costs are skyrocketing.



5 Portland A good quality of life, high immigration levels and computer smarts helped make this rainy town a winner. Behind Denver, though, because of an ambivalence in Portland's attitude toward success: It doesn't seem to really want to break out of its timber-town past and head toward the information-heavy future. Still, a town that's far better than most for a young company to be, particularly if you plan to mine the rich markets of the Pacific Rim.



6 Seattle A disparate crew from the middle tier of America came next. We differentiate based on factors like a major success story. In Seattle's case, McCaw Cellular and Microsoft turned the odds in its favor. Additionally, Microsoft sports 2,000 millionaires, led by founders Bill Gates (\$9.5 billion) and Paul Allen (\$3.5 billion). Quite a venture capital pot for tomorrow's entrepreneurs! Watch Boeing's fortunes for another indicator of the region's economy: The company wants to fly its new computer-designed twin-engine 777s across oceans; but the Federal Aviation Administration must approve it first. Any long delays could spell layoffs and more pain.



7

Phoenix Expanding rapidly in population, infrastructure and new businesses, Phoenix turned in a solid performance. High-tech enterprises like Intel and financial-services companies are flocking to the desert town, attracted by sun and laissez-faire politics. The presence of Arizona State

University has spawned a mini-economy around the giant school. Fortunes will soar even higher when ASU becomes as ambitious about EE degrees as it is about baseball.



8

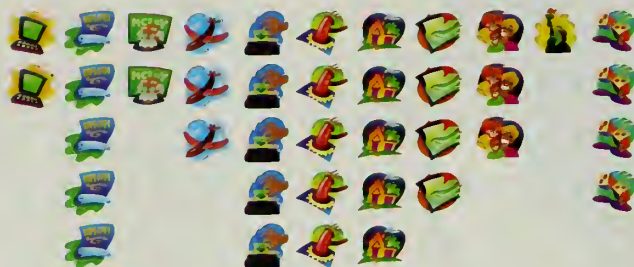
Minneapolis - St. Paul The Twin Cities offer info-age businesses the advantages of a major university, a highly livable urban environment and a reliable, hard-working population. The airport is a regional hub but easy to get to and usually uncrowded. But we put the Minnesotans

behind Seattle and Phoenix because they're weighed down by a stolid Scandinavian suspicion of success (Was it real? Was it ill-gotten? Was it necessary?), a politically correct nest of regulations, high taxes and a climate that swerves from bone-chilling cold to mosquito-infested heat.



9

Omaha This medium-sized city is a swell place to do business. The "data-processing back office of America" benefits by a light tax and regulatory burden and a growing confidence, inspired by Warren Buffett. But Omaha offers less talent to tap, few immigrants and a blander quality of life than its rivals in this group. Depending on the kind of business you plan to run, these factors might slow you down.



10

San Francisco The costs of doing business are astronomical. And the city of St. Francis is obsessed with the rights of anyone with even the remotest claim to offense or underprivilege. The result is a quagmire of rules, lawsuits and plain silliness. But in terms of sheer opportunity, the city profits by proximity to Silicon Valley, Stanford and Sand Hill Road—America's holy trinity of innovation, finance and start-up infrastructure, all of which attract talent from around the world. As a gateway to the rising economic stars in Asia, San Francisco is well-positioned to keep flying high in the information age.



And that's only the top 10. To see how ASAP rated all 100 of America's most populous cities and metro areas for their information age business climate, turn to the back of the fiber-optic map on the following pages.

Our thanks are due to the following sources: For the categories of General Education, High-End Brains, Airport, Cost of Housing, Cost of Living and Quality of Life, data was provided by Wadley-Donovan Group, Morristown, N.J. Additional data on High-End Brains came from Moran, Stahl & Boyer, New York. Our Computer Savvy ranking was based on data from Computer Intelligence Infocorp, La Jolla, Calif., and Wadley-Donovan. Immigration numbers came from the Immigration and Naturalization Services' Statistics Division. Numbers for the Taxes category came from the Cato Institute in Washington, D.C., the National Federation of Independent Businesses, Washington, D.C., and the Census Bureau. Information for Regulations/Torts was provided by the Equal Employment Opportunity Commission, the Commerce Department, the National Center for State Courts in Williamsburg, Va., and local bar associations.

Forbes ASAP researchers: Lee C. Patterson, Gene Koprowski.



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BEST FAST PLACES

	Computer Savvy	General Education	High-End Brains	Airport	Taxes	Regulations /Torts	Cost of Housing	Cost of Living	Quality of Life	Immigration	Entrepreneurial Zest	Overall Ranking
Salt Lake City-Ogden, Utah	5	5	4	4	4	5	3	4	5	1	5	45
Houston, Texas	5	2	4	5	4	2	4	4	3	5	4	42
Dallas, Texas	5	3	4	5	4	2	3	4	3	5	4	42
Denver, Colo.	5	5	4	5	2	3	2	3	4	3	5	41
Portland-Vancouver, Ore.-Wash.	5	5	3	3	3	3	4	3	5	4	3	41
Seattle-Bellevue-Everett, Wash.	4	5	4	3	2	3	1	2	5	5	5	39
Phoenix-Mesa, Ariz.	3	5	2	4	3	4	3	3	4	4	4	39
Minneapolis-St. Paul, Minn.-Wis.	4	5	4	5	2	3	2	2	4	4	4	39
Omaha, Neb.-Iowa	2	5	2	3	5	5	5	4	3	1	4	39
San Francisco, Calif.	5	4	5	5	2	1	1	1	5	5	4	38
Atlanta, Ga.	5	1	4	4	2	2	3	3	5	4	5	38
Raleigh-Durham-Chapel Hill, N.C.	5	1	5	3	4	3	2	4	5	1	5	38
Chicago, Ill.	4	4	4	5	2	2	2	2	4	5	3	37
Washington, DC-Md.-Va.-W.Va.	5	3	5	4	1	2	1	1	5	5	5	37
Austin-San Marcos, Texas	5	3	4	2	3	2	3	5	4	2	4	37
Kansas City, Mo.-Kan.	3	5	3	4	3	3	4	4	4	1	3	37
Los Angeles-Long Beach, Calif.	4	4	4	5	3	1	1	1	4	5	4	36
San Jose, Calif.	5	4	4	3	4	1	1	1	3	5	5	36
Orange County, Calif.	5	4	4	3	3	2	1	1	4	5	4	36
Columbus, Ohio	2	5	4	3	4	2	4	3	4	1	4	36
Saint Louis, Mo.-Ill.	4	5	2	5	2	3	4	4	3	2	2	36
Detroit, Mich.	3	4	2	5	2	2	5	3	3	5	2	36
Oakland, Calif.	5	4	3	5	4	1	1	1	3	5	3	35
Miami, Fla.	2	2	2	4	4	2	3	3	3	5	5	35
Fort Worth-Arlington, Texas	3	3	3	5	5	2	4	4	2	2	2	35
Akron, Ohio	1	5	3	4	4	2	5	4	4	1	2	35
Boston, Mass.-N.H.-Maine-Conn.	4	4	5	4	1	2	1	1	5	5	3	35
San Francisco, Calif.	4	4	3	3	5	2	2	2	2	4	3	35



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RANKING NEWSPAPER NEWS, 2012										RANKING									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Jacksonville, Fla.	1	2	2	2	4	3	4	1	1	4	1	1	4	28					
New Orleans, La.	3	1	3	3	2	3	4	5	1	1	2	2	28						
Birmingham, Ala.	1	1	2	1	2	4	5	4	3	1	4	4	28						
Harrisburg-Lebanon-Carlisle, Pa.	4	2	2	2	3	2	3	4	3	1	1	1	27						
Fresno, Calif.	1	4	1	1	5	2	3	2	2	4	2	4	27						
Louisville, Ky.-Ind.	1	1	1	2	2	3	5	3	5	1	3	3	27						
Mobile, Ala.	1	1	1	1	4	4	5	5	1	1	3	3	27						
Gary, Ind.	2	1	1	5	1	2	5	5	2	1	1	1	26						
Grand Rapids-Muskegon-Holland, Mich.	2	4	2	1	2	2	5	3	2	1	2	2	26						
Jersey City, N.J.	2	3	3	5	3	2	1	1	1	4	1	4	26						
Charleston-North Charleston, S.C.	1	1	2	1	2	3	3	5	3	1	4	4	26						
Memphis, Tenn.-Ark.-Miss.	1	1	2	3	2	3	4	5	2	1	2	2	26						
Bakersfield, Calif.	3	4	1	1	5	2	3	2	1	1	2	2	25						
Youngstown-Warren, Ohio	1	5	1	1	1	2	5	5	2	1	1	1	25						
Rochester, N.Y.	2	2	4	2	1	2	3	2	4	1	2	2	25						
Columbia, S.C.	2	1	3	1	1	3	4	5	2	1	2	2	25						
Fort Lauderdale, Fla.	3	3	2	3	1	3	2	1	1	4	2	2	25						
Little Rock-N. Little Rock, Ark.	1	1	2	2	1	4	5	5	2	1	1	1	25						
Monmouth-Ocean, N.J.	2	3	2	5	3	2	1	2	2	1	1	1	24						
Scranton-Wilkes-Barre-Hazleton, Pa.	2	2	1	1	1	2	5	5	3	1	1	1	24						
Albany-Schenectady-Troy, N.Y.	3	3	4	2	1	1	2	2	3	1	1	1	23						
Baton Rouge, La.	1	1	2	1	1	3	4	5	1	1	3	3	23						
Syracuse, N.Y.	1	2	3	2	1	2	3	2	4	1	2	2	22						
Allentown-Bethlehem-Easton, Pa.	4	2	2	1	2	2	2	3	1	1	2	2	22						
Stockton-Lodi, Calif.	1	3	1	1	5	2	2	2	1	2	2	2	22						
West Palm Beach-Boca Raton, Fla.	1	2	2	3	3	2	2	1	1	3	2	2	22						
Sarasota-Bradenton, Fla.	1	2	2	1	4	2	3	3	1	1	2	2	22						
Worcester, Mass.	2	3	4	1	3	2	2	1	2	1	1	1	22						
New Haven-Meriden, Conn.	4	4	3	1	1	3	1	2	1	1	1	1	22						
Providence-Warwick-Fall River, R.I.-Mass.	2	2	2	2	3	2	1	2	3	2	1	2	22						
Springfield, Mass.	1	4	2	1	3	2	2	2	1	1	2	2	21						

BEST FAST PLACES



TOMORROW'S BROADBAND NETS and wall-hanging PC screens will surely alter business and its dependence on specific location—but how exactly? ASAP editor Rich Karlgaard and writer Michael Malone (co-author of *The Virtual Corporation*) decided to find out. In early January they flew in from Silicon

and see these extraordinary things—billion bit per second [gigabit] telecommunications, wall-size, three-dimensional television displays, massive databases accessible from around the globe. Where is this taking us?

CITY VS. COUNTRY

TOM PETERS & GEORGE GILDER

DEBATE THE IMPACT OF TECHNOLOGY on LOCATION

Valley, picked up contributing editor George Gilder in western Massachusetts and drove up to West Tisbury, Vt., to talk things over with Tom Peters, management guru and *Forbes* ASAP columnist, on his 1,300-acre farm.

Peters, 52, and Gilder, 55, share an unbridled enthusiasm for technology, free markets and dynamic economies. But they differ, profoundly at times, on the sociology of change. For starts, Gilder is a political conservative, Peters a liberal. Assume boundless computing and bandwidth, and Gilder thinks people will choose to live anywhere they like while working with anyone they please on the Net; they will leave behind crime, crowds and corrupted schools; they will flee cities. Peters believes large, vibrant cities will thrive as centers of talent and exporters of content. The countryside will also prosper as havens for the technohip. But as the middle hollows out, so could many small-and medium-sized cities.

Though the two thinkers are friends, the debate inside Peters's reconstructed barn office became heated enough at times to melt the Vermont snow.

ASAP: Let's say technological progress rushes on at its current pace. We can look out there 20 years

and technologies will prevail. PCs and palmtops will eclipse mainframes and other large, centralized machines. It means that all of the monopolies and hierarchies and pyramids and power grids of industrial society are going to dissolve before this constant pressure of distributing intelligence to the fringes of all networks. Above all, Moore's Law will overthrow the key concentration, the key physical conglomeration of power in America today: the big city—that big set of industrial cities that now lives on life-support systems—some \$360 billion of direct subsidies from all the rest of us every year. Big cities are left-over baggage from the industrial era.

PETERS: The real reason for cities, though, is that they converge information, as at the original crossroads of the Middle Ages.

GILDER: Yes.

PETERS: That was basically the first perfect market, driven by the convergence of information at a particular geographic point. The thing that intrigues me is on the one hand, about 98% of what George and I have said over the years is completely consistent. My entire life has been in the destruction of hierarchies and the distribution of intelligence. But at least for the next 30 or 40 years or more, the fundamentals of human cognitive processing dictate that cities are going to remain the vital creative centers of the economy. It's the old Jane Jacobs *Death and Life of Great American Cities* idea that the richness, the exuberant variety of cities—with the *e* and the *v* cap-

GILDER: I think we are headed for the death of cities. That is, the death of the current configuration of cities as we know them all today. People perpetually underestimate the importance of Moore's Law, the law propounded by Gordon Moore, founder of Intel. It ordains that the number of transistors on a chip—and hence the cost effectiveness of computers—essentially doubles every 18 months. This is an exponential law.

ASAP: So what does this mean for the future of cities?

GILDER: Moore's Law is a centrifuge. It breaks down cities and all other concentrations of power. It means that small, cheap, distributed organizations



italized—is the fount of economic creativity and business growth.

So, let's get away from George's objections to the \$360 billion of urban subsidies, which I have no problem with whatsoever. Let's forget New York and Chicago and Paris, for the moment. Let's talk about Santa Clara County, California. I'm much influenced over the past few years by the rejuvenation of the study of economic geography by Michael Porter and others. These analyses contradict the death of cities; they now celebrate the ascendancy and relevance of the new city-state. In some fashion, Silicon Valley is a city-state. These clusters of exuberant variety are at the heart of entrepreneurship and progress. But can you have all those failures and successes, all that kind of symbiotic mess of human-

ity, without real cities? Technology is great, but humans like to schmooze. For example, Forbes ASAP, in September 1993, had a piece on Hatim Tyabji and VeriFone, and they are as networked as anybody else in 1994 and 1995. But then Tyabji says to make this damn thing work, make the company creative, he's got to spend 400,000 miles a year on the road doing his local version of physical proximity, and it's that human dimension of entrepreneurship that Gilder's theory misses. One of the economic geographers at MIT tested the various theories of entrepreneurial clustering. The best theory was the Jacobs one, focusing on exuberant variety. I love the idea that a sort of multimedia gulch has arisen in the Bay Area, but not in the Bay Area, in the city itself. San Francisco.

ASAP: But Silicon Valley doesn't have quite the diversity that any random large city in America has. The diversity that counts in Silicon Valley is not so much the diversity of Dead-heads and cookie entrepreneurs meeting chip heads so much as it is chip heads at Intel meeting chip heads at Sun, meeting chip heads at Hewlett-Packard over lunch at Il Fornaio.

PETERS: But even if I acknowledged that, I would ask you a question because again it's the problem I've got with the Austins and Portlands and Seattles of the world. If you were a 23-year-old MIT graduate today, and you were totally turned on by this stuff, where would you go? You'd have to be born without

a brain not to choose Santa Clara County despite the smog, despite the traffic, because there's more stuff going on. Even if the variety is not as exuberant as Jane would like to have it. That's where I would go. That's the city-state where it all happens.

GILDER: You'd go to Provo, where a lot of the software is happening.

Laughter.

PETERS: That would be my death.

GILDER: Well, maybe the technology can bring you back to life even in Provo. Silicon Valley emerged when bandwidth was scarce, and you had to have your

computers close together because the capability of the phone lines was four kilohertz. Now we're reaching the point where the speed of the fiber-optic networks across the country will be faster than the speed of the back plane bus of your computer, communicating between the hard drive and the monitor, and the microprocessor. This will be a major change when you can tap into remote archives and libraries as readily as you can tap into your own hard drive and CD-ROM player. The microcosm of Moore's Law itself was not sufficient to destroy cities. The telecosm can destroy cities because then you can get all the diversity, all the serendipity, all the exuberant variety that you can find in a city in your own living room.



George Gilder (top, bottom) is the author of *Wealth and Poverty*, *Microcosm*, and his ASAP-serialized *Telecosm*. Tom Peters, center, is the author of *In Search of Excellence*, *Liberation Management* and the current best-seller, *The Pursuit of Wow!*



PETERS: Yes, you and I could be infinitely more potent in terms of acquaintances, information availability and so on. The issue that I've got is not a social issue. It's the issue of

innovation. I think we need the physical mixing and blending and bustling of Silicon Valley and other such clusters. They've tried the Gilder method of networked companies and it didn't really work. For example, there's this one in Britain called FI Group which is an old information systems company that was founded by a woman who couldn't excel at ICL after she got pregnant, so she started her own company and everybody works for her part-time—

"That's a ridiculous, reductionist argument, George."



Peters, 52, splits his time between West Tisbury, Vt. (where he writes and thinks), and Woodside, Calif. (where he keeps an eye on his Palo Alto business, The Tom Peters Group).

women who were on pregnancy leave or what have you. The intriguing thing is about 15 years after they started, nobody wanted to work every day in their homes. So they had to create these work centers. People couldn't accept the ultimate decentralization which was to live the lonely life that George and I do kind of on the farm in western Massachusetts and in western Vermont.

As far as I am concerned, the greatest thing in the world would be the dispersion of the suburb. You should either be in places where there are two people per

square mile or places where there are two million per square mile. I have a great deal of difficulty imagining a vibrant society with no opera companies, with no ballet companies, no Cafe Veronas in Palo Alto, and I doubt whether we can have a cyberspatial Cafe Verona with the sweat dripping all over the machines.

ASAP: Let's say you could sit in your house and the wall becomes the Metropolitan Opera and you could actually choose the camera angle, whether you wanted supertitles or subtitles, which side of the room you wanted to sit in. You could get close-ups on the various singers. Your virtual experience is, say, 95% of what it is like to attend, no?

GILDER: I would say 200 or even 500%. Look. You go to the opera, and you look at these people in the distance. You don't really focus on each singer separately.

PETERS: That's a ridiculous, reductionist argument, George. I'm not an opera freak, OK. But there is a possibility that sometime by the year 2030, we will be playing major league baseball again. [Laughter.] I've been going to major league baseball games since the age of eight, first at the Memorial Stadium in Baltimore and for the last 20 years, the Oakland Coliseum and good old Candlestick Park. I refuse to believe—regardless of the quality of the technology—that you will be able to have the intersection of what it's like to have a fabulous sunny, late June day

at Candlestick Park, plus Barry Bonds who played back in the days when baseball was played. In fact when he was a 29-year-old young man—not a 70-year-old. There is that holism about going to a baseball game that to me is not radically different from that physical entity called Silicon Valley. The question is where the next Silicon Valley is going to be, and I'm not ready to buy the hype that it will be on the Internet.

GILDER: Take the most important recent new chip that's been designed. It's called the MVP that does two billion digital signal processing operations a second. It's a super new chip that Texas Instruments designed 24 hours a day in Dallas; Houston; Bedford, Britain; and Bangalore, India. They had four teams working all around the world and around the clock constantly on a network, and they produced a final design much faster than ever before.

PETERS: Fine, George, but each of those four locations that you mentioned is a city that attracted its appropriate share of Indian 27-year-olds or British 27-year-olds or American 27-year-olds.

GILDER: The fact is, as bandwidth expands, it means that any place can be a Dallas or a Bangalore or whatever for the purposes of designing a microchip.

PETERS: Let's take it to the total extreme. Suppose there were 400 people involved in the TI chip design, which probably is not a bad definition of the number, could we literally imagine each of those 400 in a different physical location? There is something



about a Dallas which in a limited way brings us back to Silicon Valley. To me, a lot of the power of Silicon Valley is we're big enough and rich enough that we can have Indians talking to Vietnamese talking to Israelis right here in Santa Clara. Isn't there something about the Indian who marries a

Vietnamese that epitomizes the exuberant variety of an entrepreneurial cluster? I love Vermont. I've been here for 10 years. But I'm a guy who is very lucky. I can get out of Vermont.

GILDER: Soon you will be able to go to your teleputer and get out, and you can get out and talk to whomever you want to talk to at that moment, wherever they are in the world, and you can see them as vividly as I see you across the couch. And you can work together simultaneously on a single document or product in a way that you probably couldn't if we were sitting together on a couch.

PETERS: I agree that we can work differently. But we need the kind of human contact and the exuberant variety that Jane Jacobs celebrates in cities. Incidentally, this is not something that happens in high-rises. Jacobs says that the high-rise is not the key city architecture. She contends that innovation is a function of low-priced real estate, because crazy people can only afford cheap real estate and so it's not the Seagram's building, it's these funny little buildings



that you find everywhere in and around cities that can provide a harbor for innovation.

ASAP: So the ability to live anywhere we want may actually lead us to live together.

PETERS: I'm not sure. I don't know what happens to that middle-sized city. Maybe they don't even exist because the Bay Area now is a 13 million-person megalopolis. Really, to talk about San Francisco and San Jose as separate cities is utter nonsense. The stand-alone 50,000-person city is history. A 50,000-person city can't support anything interesting.

PETERS: That is a real fallacy of your whole argument, because suddenly with the teleputer you can support interesting things all over the world. You no longer have to assemble a lowest-common-denominator crowd in a particular stadium or an upper-common-denominator crowd at a particular opera. There's much more variety in the new world of the teleputer. Any sized city or town can command as large an audience for its creations as New York or Tokyo can.

Essentially infinite choice, which means each person gets his first choice. The culture changes from a culture of lowest-common-denominator choices to a culture of first choices, from a culture with a bias toward the vulgar to a culture with a bias toward excellence and virtue, from a movie culture—with a few score movies, each costing at least \$50 million to make—to a book

culture where you go into a typical Borders with 135,000 different titles, and you always get your first choice. Only this will be a Borders all on line and multimedia, accessible anywhere. It's a fundamental shift in the demographics of culture. It's an enrichment, not a deterioration, and it does not depend on physical clustering at all.

PETERS: I have a strong interest in this. Borders I don't know that well, but take Barnes & Noble, which I do know. The magic of Barnes & Noble is that it has stolen the best of the Tattered Cover of Denver, which is arguably the best independent bookstore in America. Now my problem is that a city of 50,000 can't support a Tattered Cover. The magic of a New York is you can find a shop that does anything on earth—you can find 50,000 shops in New York that are not supportable in any city under four million. And if you go down to the cities under four million, then you will find shops there which are not supportable in cities of 75,000. What is going to happen on the Internet? Without sounding soft and yielding now, there is a fundamental human dimension of schmoozing which I am unconvinced can happen on the Internet. What I do see happening on the Internet with my 13-year-old is a lot of degraded stuff, because that is a lot of what goes on on the Internet today—not the exalted cultural pursuits and searches for excellence that George describes.

ASAP: With boundless computing and bandwidth, won't we have a kind of fluid equilibrium? Population patterns will be very fluid. Like money and stock markets and bond markets, people are going to flow to different opportunities at different times. They will play a game called geographic arbitrage. They will draw their dollars from California and from New York and from Tokyo and London—the great centers of capital and commerce of the world—and they will apply these dollars to Boise, Idaho; Fargo, North Dakota; and wherever they choose.

"Time is not infinite. Cities are great consumers of time."

PETERS: Well, that's such baloney! You can't have the museums and the operas and the ballparks unless you have a phenomenally vibrant private sector with incredibly wealthy people.



Gilder lives with his wife and four children in the Berkshire town of Tyringham, Mass. He travels 200,000 miles a year, usually flying out of the Albany, N.Y., airport.

ASAP: But maybe you can. If everything is on line, and you have subscribers out there watching the Metropolitan Opera on their wall-sized TVs out in Vermont, they are underwriting the existence of that urban palace in New York.

PETERS: That's the one point where I am in total disagreement with George. The Metropolitan Opera is one thing. But let's go back to the ballgame. Here I am in West Tinnmouth. I'm going home to the 49ers playoff. The reason I'm going home for the 49ers playoff is I love the smell of beer. Now maybe George's teleputer is going to emit beer scents to arouse my animal spirits for the 49ers. I somehow doubt it will do the trick. I think the market for big city sports will expand. I think the human appetite

PETERS: I understand that. What I don't understand is your cavalier dismissal of the basics of cognitive processing and human emotion. People will go to bookstores, for example, in part for the social experience. Do you really think that all the world's commerce is going to take place on line?

GILDER: I think most of it will, particularly information-based commerce. One of the things that I don't think people understand is the TV monitor or the computer monitor is ample for images today. What it can't do at all well is text. When the resolution, contrast and flicker come to compete with paper, suddenly huge amounts of text will go on line and be read on line.

PETERS: The technology is going to continue to evolve at the pace of Moore's Law. We humans, however, will evolve much more slowly. To go back to early Gilder, George says entrepreneurialism is driven by utter fools, "bullheaded brewers," doing their thing with the railroad in the 19th century, or the automobile in Detroit in the early 20th, creating markets by defying the boundaries of the existing economy and thus extending them. The way I describe it at seminars is the wheel was stupid because prior to the wheel, you didn't need wheels by definition. You had a wheelless society, and the first



Gilder and Peters agreed that technology will profoundly alter business and culture. But Gilder predicted cities will "hollow out" while Peters asserted they will thrive as centers of innovation.

is infinite, and the more excited I am by the stuff I see the more can be supported.

GILDER: Time, though, is not infinite. As you have pointed out many times in your books, in an age of information abundance and free computation and bandwidth, time becomes the scarcest resource of all. Cities are a great consumer of human time.

PETERS: No, they are savers of human time. They allow humans to intersect with more different stuff per hour.

GILDER: You can savor a much more exuberant variety on the Internet as it expands, and as that fiber-optic line that currently comes to the edge of your property actually moves into your house. It will increase the capacity of your communications 250,000-fold, minimum.

guy who used the wheel was called a wimp. They said, "Why don't you carry a bag of stones on your back? Why are you using a wheel?" And that's true of every new invention. The magic of the Valley is that passion to one-up the other guy. It's that passion that comes from hundreds of thousands of engineers physically crowded together in exuberantly various human communities. It's that thing we are now watching happen in Seattle around Microsoft which is a carbon copy of what happened when everybody started leaving Hewlett-Packard and got thoroughly irritated 20 years ago at the creeping bureaucracy of what was then a half-billion dollar company, which was very different from the company they remembered that all met at Dinah's Shack with Bill and Dave.

GILDER: I think you'll meet your rival more on the Internet. You'll be more conscious of his limitations. You will have on-line agents who will seek them out and follow them for you.

PETERS: Well, I am unalterably opposed to programmable agents who are going to give me what I want, and I know that Nicholas Negroponte [of MIT's Media Lab] says we can have a random number generator in there so I get miscellaneous crap as well. Relative to what I do for a living, a lot of the good stuff happens when I end up in Frankfurt with two hours to spare and wander down the street and I see X next to Y which I would have never imagined because X doesn't go with Y in Palo Alto. It's a crazy juxtaposition, which is a definition of creativity, and I know you can program it in. I've been programming since 1962. I started with the Cornell Computing Language, and with frigging punch cards, and I know how easy it is to program it in, but I still don't buy this programmed serendipity. There's something about jogging past seven windows in Frankfurt at 5 a.m., which I'm unconvinced can be reproduced on line.

GILDER: I think you'll be able to jog through the Internet wherever you want to go. It will mean that localities will have to compete harder. The problem with the cities today is they are parasites. We've got these big parasite cities sucking the lifeblood out of America today. And those cities will have to go off the dole. Rather than being centers of value subtraction, they will have to learn to add value to the nation's output. Today you survive by lobbying in Washington. That's what a mayor is. He's a prime lobbyist in the halls of Congress. New York State lost 350,000 jobs in the last five years, most of them in greater New York City, and L.A. is beginning to deteriorate also. They are becoming dirty, dangerous and pestilential.

PETERS: We have been knocking cities for at least 400 or 500 years as the essence of decadence on the planet and yet so far they've ended up being

a) the essence of decadence on the planet and b) the essence of regeneration. That's the great paradox.

GILDER: The key to urban regeneration is moral values. People are leaving Silicon Valley in large numbers to go to remote parts of Utah which are often the object of derision and jokes. They go to 'tah because of the moral disciplines that underlie that community and translate into work effort and entrepreneurship.

PETERS: But if I had to bet—forget the difference in scale—on the Bay Area versus greater 'tah, and I had one buck left, I'd put the buck on the Bay Area because of both sides of the coin, the decadence and discipline, existing side by side.

GILDER: Equilibrium is death.

PETERS: Yeah—equilibrium is death. Amen, brother George.

GILDER: All entrepreneurship is disequilibrium. It overthrows the balance of economic models and the current pattern of cities. But all economists want equilibrium. That's why they



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are killing the economy and trying to save the big cities.

PETERS: Regardless of that, we can agree that the wonderful news is governments are becoming irrelevant regardless of whether it is Newt Gingrich or Tom Foley who is sitting there in the grand chair. The real truth is when business gets on the side of government, bad things tend to happen over the long haul. I think when Silicon Valley started to get nailed by the Austins of the world, it was just about the time that Bob Noyce decided that Washington was a better place to hang out than Los Altos Hills.

ASAP: Like the entrepreneurs, they enjoy being CEOs, and they all end up wanting to be statesmen.

GILDER: They understand that the monopolies are created in Washington.

Laughter.

PETERS: Much more than they are in Santa Clara County.

GILDER: Or Redmond, Washington. **ASAP**

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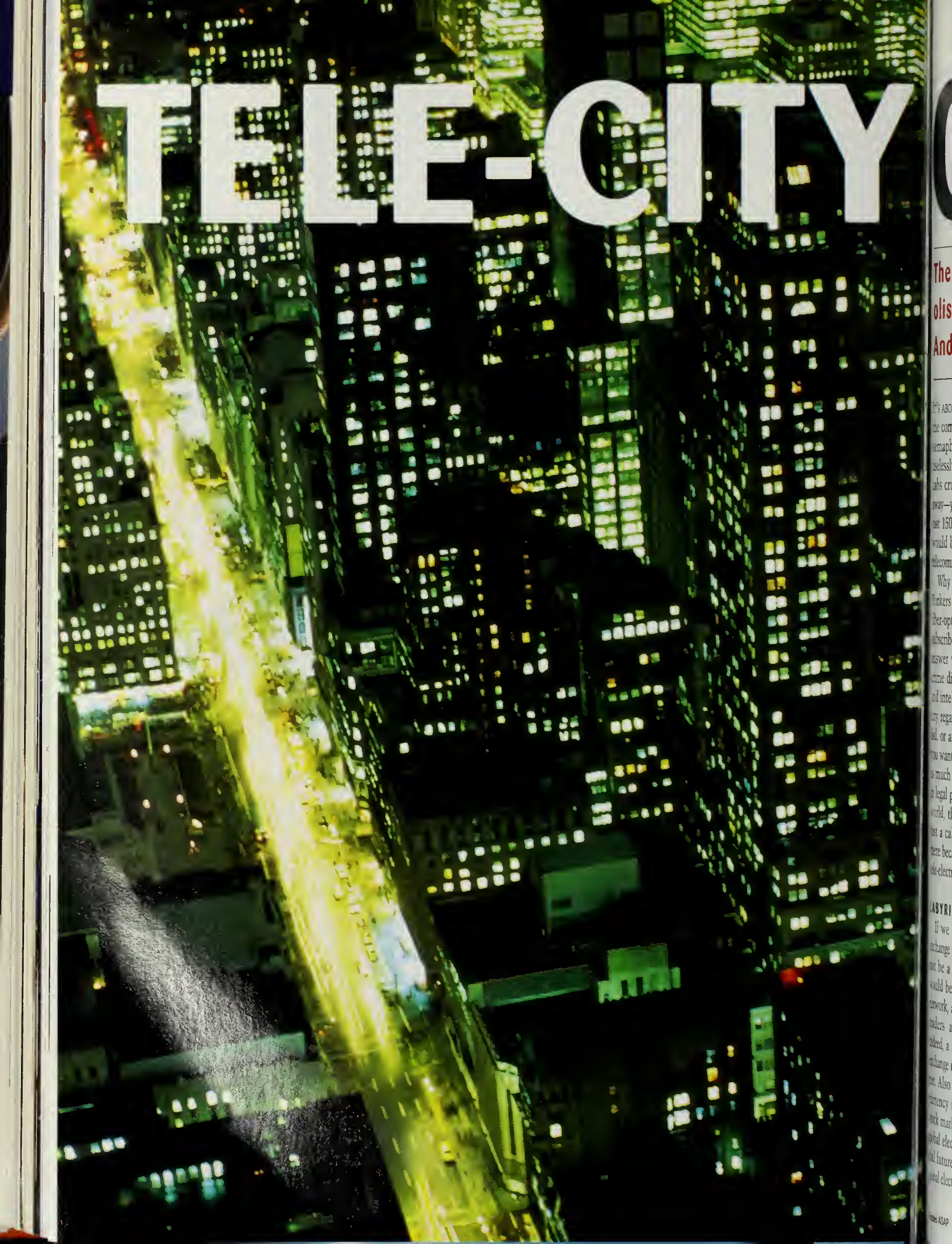
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Times ASAP

ON A HILL

The telecom revolution should be bad news for the metropolis—and the worst news of all for New York. But it isn't. And with proper management, it won't be. by Peter Huber

IT'S ABOUT TO RAIN. You're standing at the corner of Park and 55th, a human semaphore, your right arm waving uselessly at the sky. There are empty cabs cruising the streets two blocks away—you know it. If your arm were just 150 yards longer, the connection would be made. This is a failure to telecommunicate.

Why are there still so many New Yorkers to hail cabs anyway? Before fiber-optic glass, asymmetric digital subscriber lines and the Internet, the answer was obvious. The grime and crime didn't matter. Legal, financial and intellectual talent flocked to the city regardless, because everyone else did, or already had or soon would. If you wanted to borrow a billion, or sell as much in stock, or wrap up the deal in legal paper or entertain around the world, the people you needed were just a cab ride away. You had to be there because they were. With today's tele-electronics, you don't.

LABYRINTH OF NETWORKS

If we were inventing the stock exchange from scratch today, it would not be a building in New York; it would be a far-flung, decentralized network, a sort of Internet of brokers, traders and principals. There is, indeed, a small, all-electronic futures exchange up and running on the Internet. Also on line are the interbank currency market (which dwarfs the stock market), Globex (an after-hours global electronic exchange for financial futures), Access (an after-hours global electronic extension of the New

York Mercantile Exchange) and Nasdaq, which markets itself as "the stock market for the next 100 years" (although twice in recent memory the entire system was brought down for several hours by a squirrel with a taste for telecom cables). Every financial, legal, pedagogical and entrepreneurial enterprise of any importance is being networked—first within offices, then across cities; then the networks themselves are networked, within cities and beyond.

Architecturally speaking, the Internet is the exact opposite of the traditional metropolis: it is urban sprawl carried to the electronic limit, a network of networks, with Aspen's and New York's granted equal dignity so far as the routing of bits and fortunes is concerned. The great traditional centers of capital and influence should be flattening out, the skyscrapers melting not just into New Jersey but into Kansas. The telecom revolution should be bad news for the metropolis—and the worst news of all for New York. But it isn't. And with proper management, it won't be.

New York begins, of course, with its inheritance. A trillion dollars of financial transactions move over New York's telephone lines every day. Over 13,000 corporations, huge and tiny, are headquartered in Manhattan alone. Capital Cities/ABC, CBS, NBC, and Fox Broadcasting are here. George Soros is here. One-third of all national cable networks are headquartered in the city or nearby, twice as many as in southern California. In the overall

film and TV industry, the city is second only to Los Angeles. New York has 100 sound studios, 100 sound stages, 60 camera lighting companies and 100 editing companies; all told, over 6,000 businesses support New York-area film and video production. Madison Avenue rustles up the advertising cash that supports most of broadcast. "The talent," in short, still shaves, models, dines, flatters and strokes in the city.

Countless millions of people across the country and around the world want a piece of New York talent, to invest in, bank with, trade through or just laugh at late on a Saturday night. That's the good news. The bad news is that those millions don't care—often don't even know—where the talent is performing. New York, Holly-



wood, London...it doesn't matter, so long as the stock moves, the account clears, the bits sum up on the spreadsheet, the pixels light up entertainingly on the screen. If you could pick up New York's talent—the whole seething beehive—one Friday evening, and set it down in Aspen on Saturday, the money, the news and the laughter would still work their same magic around the globe come Monday morning.

POWER OF PROJECTION

Except that they wouldn't. Because the other thing the city still has far more of than anyone else is the raw, technical power to coordinate and project the talent, not via taxicab or Lutece, but from there on out, through glass, coaxial cable, microwave and satellite. What makes Bill Cosby funny is the whimsical software loaded in a few cubic inches of his skull; what makes him rich as Croesus is television. What makes New York rich is talent, too—plus the unequaled power to project talent electronically around the globe.

New York remains the unrivaled telecom hub of the planet today. All programming that originates in the Manhattan studios of the four major TV networks, all the programming for their national radio and cable net-

works, flows out from the city to the rest of the country over a vast ganglion of telecommunications that begins and ends in the heart of Manhattan. Before the distilled product goes out, an even larger torrent of raw information comes in, over equally capacious electronic facilities. In electromagnetic terms, the city is both a huge, quivering antenna—a giant receptor of telephone, radio and photonics—and also the brightest beacon on the planet, a cyber-quasar pumping out vast amounts of energy in the form of radio waves and glass-encapsulated laser light.

New York alone generates 5%—\$7.5 billion—of the country's \$150 billion telecommunications revenues. CBS's Manhattan-based newsgathering organization, for example, coordinates 105 remote satellite earth station "uplinks," which transmit video feeds from earth to satellite, and back down to Manhattan. Viacom, owner of MTV and Nickelodeon, and HBO both connect to satellites in geosynchronous orbit through earth stations on Long Island. Westinghouse-owned Group W Satellite Communications, the largest satellite video distribution company in the country, uses an earth station in Glenbrook, Long Island, to distribute programming for ABC, CBS, NBC, Fox, Japan Broadcasting, A&E,

the Discovery Channel and Viewer's Choice, and the private video networks of GE, IBM and GTE. IDB Communications, another major provider of satellite services, operates an earth station on Staten Island, a switching center in Manhattan and a satellite uplink on the World Trade Center. Through facilities like these, the city sucks in information from everywhere, processes it through human and electronic talent, adds value and then sends it back out around the globe.

Staying far out ahead of the telecom pack is not easy. It requires doubling the power and sophistication of your wires and transmitters about every two years. That's how fast the technology improves. That's how fast a contender can grab a technological edge, and then widen it and then aspire the talent. Almost a century ago, New York lost the movies because Hollywood offered better lighting—more sun. In 1975, Manhattan missed the first wave of cablecasting, because Ted Turner happened to live in Atlanta. Cable—a \$20 billion-plus industry today—was nothing until Turner transformed his small UHF station in Atlanta into a "superstation" by beaming the signal up to a satellite and then down to cable systems across the continent. Far more Americans love (or love to hate) the Yankees than the Braves; more people in Butte, Mont., would be interested in tuning in to "local" New York fare than "local" fare from Atlanta. The first superstations, and the whole satellite cable-casting industry they spawned, should therefore have been launched from New York. Somebody dropped the ball, and they weren't.

THE MIGHTY TELEPHONE

Happily for the city, however, lots of other things have gone right. A fortunate confluence of market forces and forward-looking regulatory policy has kept New York out ahead of the pack. So far, at least. In assessing the state of New York's telecosm and where it's headed, the thing to understand first is that the telecosm revolves around telephone, not televi-



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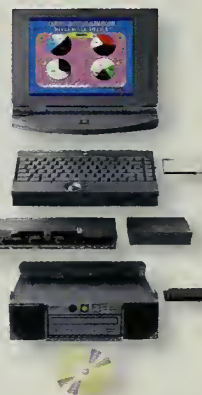
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INSTRUMENTS**

The telecom revolves around telephone, not television. The sex and slaughter artists of Hollywood aren't that important.

sion. The sex and slaughter artists of Hollywood aren't that important. Television, with all its glitz, is about a \$26 billion market nationwide; cable another \$22 billion. Telephony, by contrast, generates about \$150 billion a year. Calls to 800 numbers alone generate some \$7.8 billion a year, or more than the total television revenues of CBS and NBC combined.

Though scarcely a decade old, and still growing at breakneck speed, cellular telephony is already an \$11 billion industry. Wealth—the city's, and everyone else's—depends far more on the two-way wires next to the sewers than on the one-way perturbations of the electromagnetic spectrum in the stratosphere. And in the vicinity of its sewers, New York is still doing very well indeed. The city's telecom subway, its underground spider-web of glass, coaxial cable and copper, is the best there is—a digital bullet train in a world that still relies mostly on horses. The telecom below is the one that really counts.

Bell's legatee, New York Telephone (recently renamed Nynex New York), is the oldest and still by far the largest provider of service in the city. But today it is by no means alone. In

1983, Merrill Lynch, Western Union and the Port Authorities of New York and New Jersey created the Teleport Communications Group to provide satellite uplinks for the region's financial institutions and broadcasters. TCG started with 17 satellite send-receive earth stations on Staten Island, linked by fiber-optic cable to downtown Manhattan. Large businesses, it turned out, were more interested in using the new cables to carry traffic within the city and to inter-exchange carriers like AT&T. A new, lucrative business sprang up, centered not on satellites but on building new, local, state-of-the-art networks in urban areas. TCG unloaded the dishes, and with \$50 million from Merrill Lynch, began to deploy more glass. This was the nation's first "Competitive Access Provider," or "CAP."

So far as entering the market and providing services go, these new, competing, local phone companies have all the privileges enjoyed by Nynex, the incumbent, including a right to interconnect with it. This is important. When competition between local phone companies was tried a century ago, it was a disaster. Competitors in the same town typically refused to

interconnect with each other; businesses often had to advertise that they had "both" telephone lines. It drove everyone nuts. Not this time around. Smart electronics make possible seamless call handoffs among any number of private switches, wire-line carriers, wireless carriers, CAPs, information providers, long-distance carriers, cable companies and satellite operators. And regulators are making sure that the handoffs are made, both coming and going. As a result, six companies have since been certified as local phone companies to compete against Nynex in providing service to the city. They include long-distance carriers (MCI), CAPs (TCG) and cable television operators (Time Warner and Cablevision Systems).

It's easier to start a phone company in the city than to start driving a cab. There is no exclusive franchise, no \$100,000 medallions. Each new competitor can pick up or hand off digital passengers at literally thousands of transfer points scattered like confetti in closets, basements and tunnels the length of the island. Competition has not hit the residential sector yet, but it soon will, spearheaded by the cable TV industry. Your cable company will



It's easier to start a phone company in the city than to start driving a cab. There is no exclusive franchise, no \$100K medallions.

offer two-way phone service along with one-way video. Time Warner/US West have already announced 1995 plans to do just that over Time Warner's cable affiliate in Rochester. Time Warner (a \$15 billion-a-year concern, compared to Nynex's \$13 billion) has been granted the right to provide local service in New York City. It begins with a base of one million cable subscribers in the metro area, and a partner—U S West—that is Nynex's Bell counterpart in 14 western states. Cable's most direct, across-the-board assault on telephony will involve wireless technology. Cable alliances are already bidding aggressively for radio licenses to provide wireless "personal communications services"—a new generation of wireless phone and data service. Telephony and cable TV are converging fast—in the digital world. The result: competition is coming to residential consumers too, sooner than they think.

REGULATION IS A STUMBLING BLOCK

And yet, for all the progressive changes already made, regulation remains the biggest impediment to competition and to the city's long-term interests. Think of information

as tomatoes. Some people grow them by the truckload. Others nurse a few little vines in their backyards. So what should government do: subsidize the backyard garden by jacking up tolls on the highways and railroads that the big growers need most? Or unleash the wholesalers and let them flood the market? What you like depends on where you live.

For New Yorkers, the choice should be clear. Informationally speaking, the city is an Everest of tomatoes. And the trouble for the city is that every government-mediated subsidy, entry-barrier, quarantine and tax favors the small vines, and obstructs the giant producers and exporters. Across the board, government telecom policy is aimed at promoting expensive, short-haul, small-town introverts, at the expense of cheap, long-haul, big-city extroverts. In the broadcast arena, it's called "localism." The FCC's whole approach to assigning TV and radio spectrum is designed to boost the power of a handful of local stations, thus obstructing the development of more than a handful of national networks.

For years, cable companies were

stymied in their efforts to import "distant" broadcast signals, the theory being that if Oshkoshians could watch the Yankees they might stop watching their very own Puddle Ducks. To this day, cable companies are still forced to pack channels with local TV broadcasts (a constitutional challenge is creeping through the courts), rather than use the same space for out-of-town fare. In other words, countless cable channels that could be opened in Aspen or Butte for Broadway or baseball from entertainment and business capitals like New York are strictly allocated to video fare from Aspen or Butte.

In telephony, the prices of long-haul calls are jacked up to subsidize the cheapest possible basic monthly rates for local service. And across the board, New Yorkers help subsidize basic phone service in rural areas, where the cost of providing service is far higher. The regulatory tax-and-spend policies that make this happen all go under the noble banner of promoting universal service. Billions of dollars are shuffled through telephony's intricate accounts to make this happen. New York loses more than anyone from such policies.



The paramount priority for New York is to project its influence outward, over the most advanced networks on the planet.

NEW YORK'S IMPERATIVES

For New York telecommunicators, the first, paramount objective is to slash the import-export duties. The price of long-distance phone calls has fallen sharply in the past decade, largely because regulators have slashed the "local access" charges that companies like AT&T pay to companies like Nynex to originate and terminate long-distance calls. There's more to slash. And the slashing must continue, even though that means cutting back subsidies to basic residential service.

New York's imperatives, in short, are very different from Oshkosh's or Butte's. The city largely solved the problem of local connection decades ago, by packing millions of people so tightly together that they could all connect by taxicab and lunch, when necessary. The job was finished more recently, when state regulators opened wide the city's local telecom markets; as a result, competition to haul bits under the streets of Manhattan is now the most vibrant in the world. Butte still has to worry, perhaps, about stringing subsidized wires out to the ranches ten miles out of town. But

Gotham's most urgent priority is to extend its electronic reach to Butte, with the cheapest, most digital, most broadband, most interactive capabilities available—and then to double those capabilities the next year, and indefinitely into the future.

The paramount priority for New York's pastors and masters is to project the influence of those large businesses *outward*, over the most advanced, least taxed, least regulated, least quarantined networks on the planet. Unfortunately, it's almost impossible to get anyone very angry about localism or residential subsidies, or the unexciting fact that Sprint can hire Candice Bergen to tout long-distance services, but Nynex can't. Long-distance prices are lower than they were; getting them lower still just doesn't seem that urgent. New Yorkers are accustomed to—are comfortable with—the Steinberg-New Yorker view of the universe—Broadway and Fifth Avenue are big, detailed and self-contained; and what lies beyond to the west is only tiny, empty, fly-over country, with perhaps a couple of glimmers of light on the Pacific coast. That, however, is the

one view of things New York can no longer afford.

The fly-over country is now getting ready to do some overflying itself. Telemarketers and operators of 800 services already congregate in Omaha, known, rather unglamorously, as the "800-Number Capital of the World." Labor and real estate are cheap, and being on Central Standard Time is a significant advantage. The New York Stock Exchange is still biggest and best, but round-the-clock trading has powerful attractions, and London or Tokyo beckons. Again, the communications facilities are at hand to knit the traders altogether. The small investor in Oshkosh will never know the difference. New York, in other words, could yet become the fly-over. There is no escaping the fact that telecom technology flattens and decentralizes.

There is also no escaping the fact that it complements the centrifugal forces that already pull talent out from the heart of the city toward cheaper housing, safer streets, cleaner air, better schools and lower taxes. There is no getting away from the evolution of the Internet, what engi-



neers call a "peer-to-peer" linking of nodes and networks on equal footing. The old, centralized, hierarchical networks are finished.

And yet...and yet every network, indeed every important sphere of human activity, will always have a clearinghouse, a nerve center, an electronic frontal lobe, where the key connections are established, the key events initiated, the key records maintained and developed. And it is at those points that a cascade of wealth condenses out of the ether. For now, the main centers of thought and control remain in New York, even as the networks themselves expand everywhere. So long as New York maintains not only the best local network but also the best links to everywhere else, the talent will stay put and the city will prosper.

What the city needs, then—what it needs more than any smaller, less vibrant, less information-intensive community—is telecom policy that is relentlessly extroverted, or at the very least not actively hostile to distance. New York business shouldn't be subsidizing New York residents; the mutual interest of employers and employees alike is to build outward, not inward. National television policy should not be promoting localism. New York City's largest single provider of phone service—Nynex—should not be quarantined out of providing any services that dare to reach into New Jersey or Connecticut—or beyond. The city has to be able to export its vast intellectual capital better, faster, cheaper, more colorfully, more interactively, than anyone else. Long-distance antennas and transcontinental glass, satellite uplinks and downlinks, switchers, routers and multiplexers, the eyes and ears and vocal cords of the electronic age—these are what will keep New York the tallest city on the highest hill.

Peter Huber is a Forbes columnist, a senior fellow at the Manhattan Institute for Policy Research and the author of Orwell's Revenge: The 1984 Palimpsest. A longer version of this article appeared in the Winter 1995 issue of the City Journal. The author has done consulting work for various Bell companies and other providers of telecommunications services.



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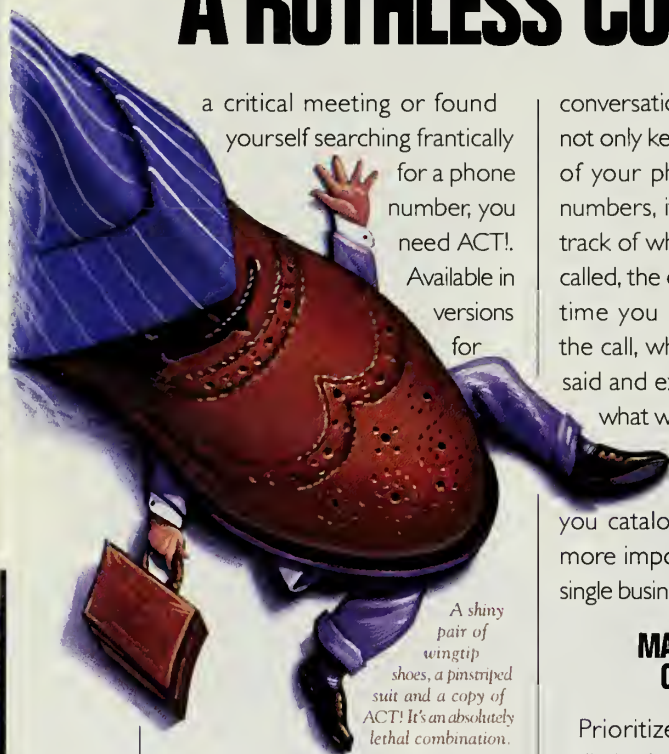
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ASAP
INTERVIEW

LARRY PRESSLER

The new Republican chairman of the Senate Commerce, Science and Transportation Committee will try to steer America's telecom policy toward deregulation.

THE GOP's agenda for regulatory reform in telecommunications wasn't detailed in the "Contract with America" signed by Rep. Newt Gingrich and hundreds of other conservatives before the Nov. 8 election. But the movement to bring free-market principles to one of America's most vital industries—quietly coalescing on Capitol Hill—is infused with the same spirit. Sen. Larry Pressler (R., S.D.), chairman of the Senate Commerce, Science and Transportation Committee, and Rep. Jack Fields (R., Texas), his House counterpart, want to emancipate the telcos, cable companies and cellular service providers from the "regulatory apartheid" that has restrained their growth for years and kept them from creating new technologies and services. Moreover, the GOP wants to bust the barriers that have prevented local phone companies from going into long-distance service and cable TV. Opening local phone monopolies to competition is a goal as well.

The Communications Act of 1934, which created the artificial divisions between telcos and others in the communications field, is becoming increasingly irrelevant because of advances in today's technologies.

But a more recent measure sure to be revisited by the GOP Congress is the 1992 Cable Act, which imposed rate restrictions on the industry and is favored by Federal Communications Commission Chairman Reed Hundt.

Social objectives stressed by Hundt and his patron, Vice President Al Gore, such as racial and gender quotas and universal access to the information superhighway, will also be examined. Greg Simon, the chief domestic



We can't just twist everybody's arm and make this happen. People don't respond to arm-twisting in this Senate. In this day and age, everybody's an independent operator. So if we're going to pass telecom legislation, it will be a consensus effort.

policy adviser to Gore, told Forbes ASAP that the White House wants to cooperate with the GOP but will insist on creating "fair competition" and on providing "universal" access to emerging telecom services.

Sen. Pressler explains how telecom legislation in 1995 presents the opportunity to create a Republican-style government, one where the state gives companies the liberty needed to innovate.

ASAP: We've heard that during this session of Congress you want to open the cable and telecommunications businesses to competition, and that you want to create an era of complete competition and free enterprise in communications. What do you mean?

PRESSLER: Everyone has to realize that there's going to be competition in communications. The companies are going to compete, and not have a form of regulatory apartheid of little groups and homelands that are protected from competition. Now, in telecom, you still may have to use somebody else's wires to get where you want to go. That's why it makes it a little bit difficult to achieve that. But I hope to find deregulatory steps for that in our telecommunications bill. We need that road map for the next 20 years. And after that, we will be in the wireless era, the era of perfect competition.

Everybody in the communications industry tells me that if they knew what the ground rules were, knew the roadmap, there would be an explosion of investment; there would be a lot of new technologies; and there would be a lot else happening. But if we don't have that national legislation, we will



have ad hoc court decisions and slices of legislation, which I don't think will be effective.

I think the road map will be as significant as the Communications Act of 1934.

ASAP: That act is more than 60 years old, and

it has created the barriers between different types of communications companies. What would you like to see changed?

PRESSLER: We want to allow the long-distance phone companies to get into local competition, and the local tele-

phone people to move into other areas, like long distance, as well. We would also like to see other companies get into the communications business—like cable companies. And we'd like to see restrictions on manufacturing of telecommunications equip-

ment lifted.

ASAP: You're now the chairman of the Senate Commerce, Science and Transportation Committee. There's a GOP Senate and House. Are these players going to have to negotiate on your terms now?

PRESSLER: What does this mean for telecommunications? I was somewhat distressed to see that the Democrats already want to spend the money from the FCC spectrum auctions. But we haven't even gotten it in yet. And I wasn't consulted

about that. Let's face it. This money may go for deficit reduction. It might go for other purposes. But the vice president already announced that the money was going to be spent on education, here and there. Maybe that's good. Maybe it isn't. We're the Republican Congress. And there's got to be a consultative process here.

I don't know what can get passed. Last year, we had all of these hearings and discussions and all of this lobbying. Now we have to figure it out. The Democrats have 47 votes in the Senate, and though we have procedural control, they can stop any piece of legislation they want to. I'm spending my time visiting with members of Congress—I've had about 40 office visits and social visits. And I plan to continue the process. And I also visit with communications company CEOs whenever I can. And I tell them that this is not the era of Lyndon Johnson. We can't just twist everybody's arm and make this happen. People don't respond to arm-twisting in this Senate. In this day and age, everybody's an independent operator. So if we're going to pass telecom legislation, it will be a consensus effort.

ASAP: What sort of advice are you soliciting from industry?

PRESSLER: I'm talking to CEOs. But I don't want to trigger another new round of lobbying. The time has come to just do it—or not do it—with this legislation. But the consequences of not doing it will be a slowing of investment, and we'll be denied new technologies.

ASAP: The Democrats have embraced one of the competitive concepts you've been pushing—spectrum auctions.

PRESSLER: The auctions were something the Republicans pressed for for more than 10 years. And I was pleased to see some extremely liberal Democrats [Rep. Ed Markey and Vice President Gore] up there on the platform at the FCC ceremony recently. But that's OK. We accept converts.

ASAP: We've heard that you were not too pleased with Al Gore's hype over the information superhighway. We also hear that you think he disappeared last year, after raising expectations about the issue. Is that right?

PRESSLER: I hear all this talk about the information superhighway, and I'm all for it. But you've got to stop and take a look at what we have today. There are cellular phones, cable TV and some on-line services. But in terms of one big information high-

way, we really don't have it yet. We will have it though, through free enterprise. So I think [Gore] has overwhelmed people.

ASAP: Greg Simon, the chief domestic policy adviser to Vice President Gore, tells us they were not visible on the bill because they didn't want to politicize telecommunications.

PRESSLER: The Democrats always say that they don't want to politicize something when you don't accept everything they've put forward. And I'm going to be a little partisan here. I'm reaching out the hand of friendship—but there's going to be less regulation here.

ASAP: What has the Democrats' line been on telecom?

PRESSLER: The Democrats' line has been slow on deregulation, and quick on spending.

ASAP: You're concerned about the Cable Act of 1992, as well. What are your plans there?

PRESSLER: We have no problems with the issues of programming. But we've got to revisit the area of rate restrictions.

ASAP: Any other concerns you have about Democratic communications policy?

PRESSLER: One of my pet peeves is the Corporation for Public Broadcasting. It is very biased toward the left in American politics in its commentary. But these doctrinaire liberals hide behind *Barney* and *Sesame Street*. I love *Barney* and *Sesame Street*. But maybe we should just have a PBS for children.

I watched *Baseball* [the PBS documentary by producer Ken Burns]. And every night I got a little tired of hearing about Mario Cuomo's boyhood.

ASAP: Rep. Dick Armey [the House majority leader] and other conservatives on Capitol Hill have proclaimed themselves to be libertarians. You've mentioned that you want pure competition, which sounds similar to economist Ludwig von Mises who talked of "perfect capitalism." Are you a libertarian?

PRESSLER: No, I don't go for fancy labels. I'm just a boring, Midwestern conservative who believes in limited government.

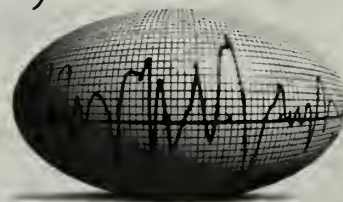
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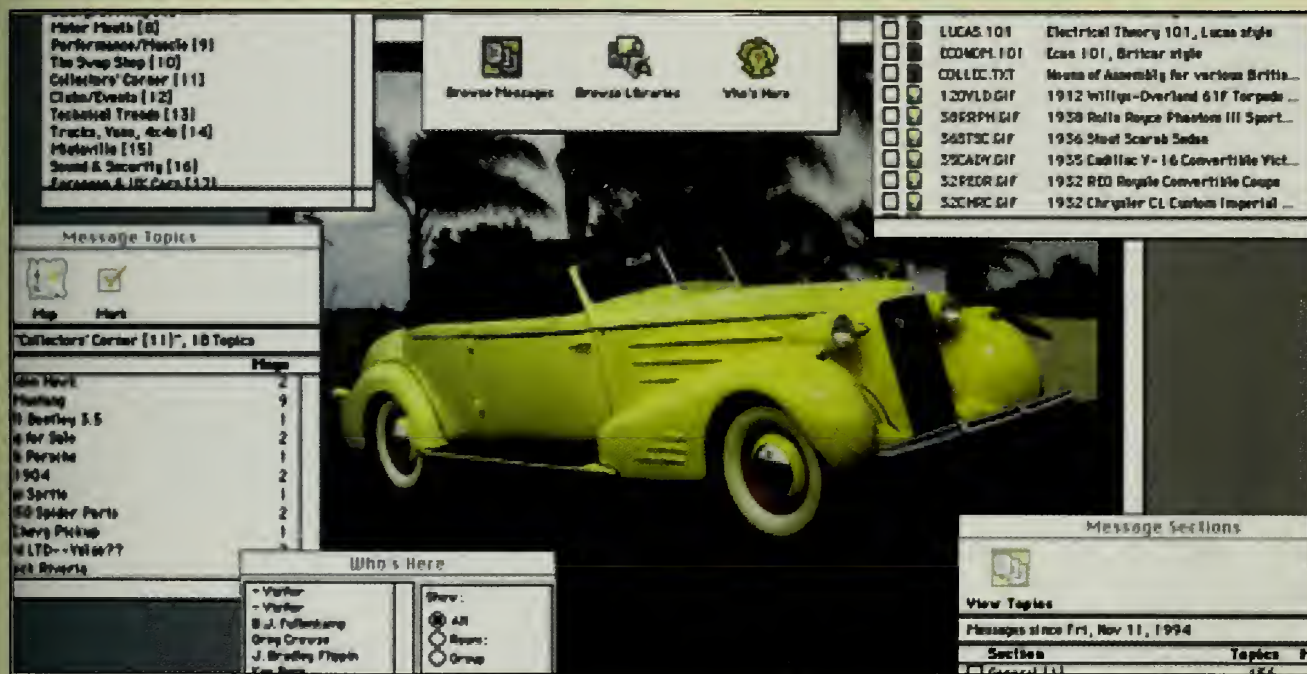
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edited by **Michael Wolff**

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mance area with a variety of car-related message boards. Then visit one of the on-line car lots—either DealerNet or Webfoot's Used Car Lot—to research models, options, and prices, along with service and parts. Grab a little consumer guidance from Auto-venture and some road-test results from *Car and Driver*, and then drop by rec.autos.marketplace to check out the listings. And once you get that car, make sure you contact SonicPRO to order an alarm.

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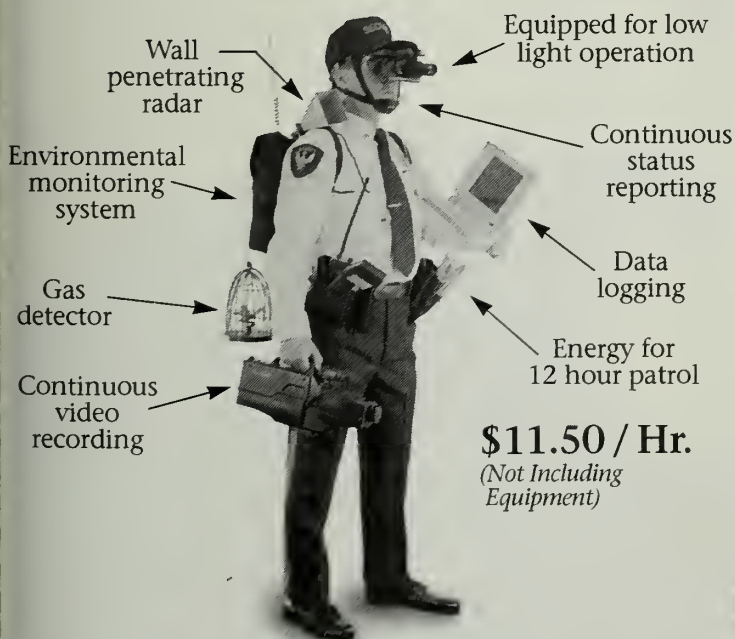
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Net Money was co-published by Michael Wolff & Co. and Random House Electronic Publishing. Michael Wolff can be reached on the Internet at mwolff@ypn.com.

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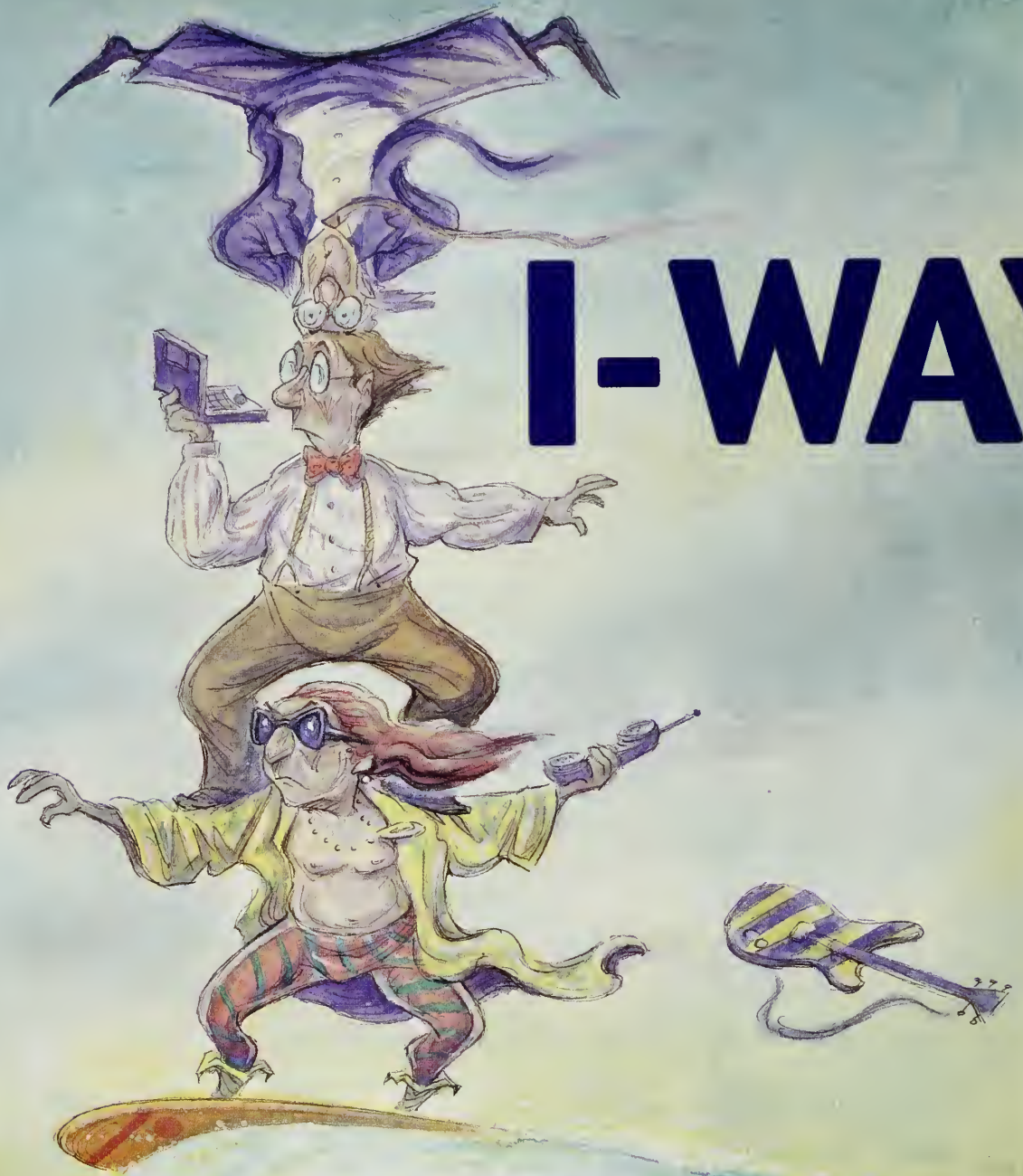
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ASAP

Cyber-surfers jostle for the Third Wave. Some catch a curl, some wipe out. For investors, the end result doesn't matter as much as knowing *how and when* to go along for the ride. A top venture capitalist scouts the break. BY ROGER MCNAMEE

INVESTING

FROM THE POINT OF VIEW OF THE TYPICAL investor, the major technology wave that has come to be known as the information superhighway has sown more confusion than anything else. This is hardly surprising. We are in the early years of a generation-long technology transformation. In many ways, this transformation appears similar to the one a century ago that produced the telephone, phonograph and other marvels. As then, people are developing technology without really knowing how it will be used.

Fortunately, we don't need to know the outcome in order to profit from the process of creating an information superhighway. For the public-market investor, the trick will be to resist temptation to fantasize about what might be and focus on what *is*. To this end, I will share one of the frameworks we use at Integral Capital Partners to analyze investment opportunities.

Acknowledging that I am grossly oversimplifying everything, I posit that most new technology-based markets develop in three basic phases.

The first phase is *infrastructure*. By that, I mean the physical plant of the new technology. For the PC industry it was motherboards, chip sets, disk drives. For the information highway, it will be the network of switches, fiber and coaxial cable that connects the country.

The second phase is *enabling technology*. Enabling technology consists of protocols, operating systems, services and the like. It is the glue that allows you to do something meaningful with all the infrastructure you have built. The x86 microcode, MS-DOS, PostScript and Netware are examples. SkyTel (in paging) and CellularOne (in cellular phones) are services that qualify.

The third phase is *content*, a term that also includes applications and programming. This covers everything from Microsoft Excel to the *New York Times* to the music of the Grateful Dead.

This framework underlines several important facts of life of technology markets. First, in technology markets, the phases tend to follow each other sequentially. In any generation of technology, you are generally better off wait-

ing until infrastructure and enabling technology have been deployed before investing in content. Second, markets are not created equal. Some businesses are inherently better than others. In a normal—that is to say, competitive—technology market, the value accrues unevenly across the three phases. As long as the government does not choose to extend monopoly privileges, most of the value winds up in the content business. It is very hard for the owners of infrastructure to capture more than a modest percentage of the value in a technology-based industry.

The PC industry serves as an example of how value accrues in each stage. The most valuable franchises in the PC industry turned out to be the enabling technology—Microsoft's operating systems in particular. It is worth noting, however, that the bulk of Microsoft's huge market value came only after 1990, when the company became a major force in the applications business.

As much as we would like to invest in applications and content all the time, it may not always be practical. There are phases in the cycle when infrastructure investing is the only thing available. Fortunately, there are times when infrastructure investing can be quite profitable. You just need to know when to sell and move on.

Let me now apply this framework to the information superhighway, where dreams are often capitalized like real assets. The infrastructure of the information superhighway will be a communications network, which is likely to be a fabric of satellites, switches and fiber-optic and coaxial cable. The makeup and mix of infrastructure technologies will depend on who deploys them.

The enabling technology of the information superhighway is harder to predict at this point, but it will certainly include things such as a billing system and an operating system to manage programming from home. As for applications, that is anyone's guess. Before you accept any particular vision of the applications of the future, remember that Thomas Edison thought the telephone might be best suited to the transmission of music.

Point is, these are the early days of information superhighway investing. There are more opportunities to lose

money than any of us would like, particularly if you invest in the public market. As noted above, I believe that infrastructure is the only category of information superhighway technology in which it is possible to invest.

Stock purchases in any other part of the superhighway food chain should be viewed as speculation. Do your best to resist the seemingly endless procession of companies claiming to have the key piece of enabling technology or the definitive interactive application. No matter how impressive the concept, these companies are

unlikely to deliver on their promises. The same is true of all the big telecom, computer and Hollywood companies trying to position themselves as players in the new world. One day they may play a role, but for the next five years it would take an electron microscope to find a trace of superhighway revenue in their income statements. At this stage of the cycle, small companies—small *infrastructure* companies—are where the action is.

My words of caution shouldn't be confused with lack of excitement about the future of the telecommunications industry in America. I am extraordinarily bullish. But I am also supremely interested in generating the highest possible returns for my investors. Not only do I have to be right about the investment idea, I have to be right about the timing. This causes me to apply skepticism in direct proportion to the intensity of any sales pitch.

The skeptic's first step is to analyze the conventional wisdom about the information superhighway and figure out how much makes sense. Many of the players are so busy making speeches and issuing press releases that they have stopped thinking about the basic issues. For example, there is an unspoken assumption in government circles that we can move local loop communications to a fiercely competitive business model and build an information superhighway at the same time. The local telephone and cable companies would be forced—as an act of self-preservation—to build our information highway as their current business models melt down.

From an investor's perspective, this scenario would be terrific. Nothing would please me more than to see competition develop in the

local telephone and cable-television industries. I would love the information superhighway to develop along the lines of the PC industry: a competitive free-for-all where all the value winds up in enabling technology and content. But will it happen?

For the conventional wisdom to be right, the first fatality on the information highway has to be the local loop monopolies in telephone, cable-TV and cellular service. The trend is toward more competition in the local loop, but it isn't clear the competition will produce the outcome politicians are hoping for.

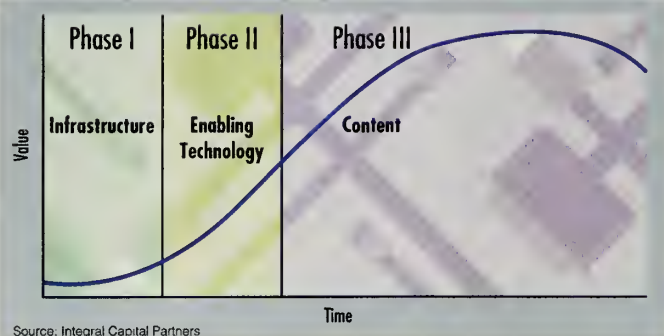
I think we have to face up to two kinds of risk in the popular view of the information superhighway. The first, that competition might cause the telcos and cable companies to run out of cash before they finish building our superhighway. The second, that they might figure out the economics of owning highway infrastructure don't justify the investment.

There seems to be an implicit assumption that the regional Bell operating companies and cable companies are a bunch of knuckle-dragging dimwits who will build the superhighway no matter what. I am not convinced. Why would they spend tens of billions of dollars to create a platform on which the rest of us will make lots of money?

There is an increasing body of evidence that the local loop carriers—the regional Bell operating companies in particular—have a better grip on the situation than they are getting credit for. Just before the election last year the local telephone industry was successful in burying a telecommunications reform bill which, among other things, would have put them at a disadvantage in a competitive environment. The cable industry, which only year ago seemed hellbent on expanding to 50 channels of programming, stopped cold after the Federal Communications Commission imposed two rate rollbacks. The action by the cable industry left the promoters of 125 new cable networks stranded without distributor a perfect example of why it is dangerous to invest in programming before the required infrastructure has been deployed.

If owning the infrastructure is not a attractive business, no one will want to own it. It might take some kind of government

How Value Accrues in a Competitive Technology Market



Some Key Players

Infrastructure

Wireless:

Glenoyre
Cirrus Logic
Motorola
DSC Communications
Ericsson
Nokia

Broadband:

Ortel
Fore Systems
Netscape
America Online
Chromatic
TCI

Enabling Technology

Wireless:

MTEL
AT&T
Paging Network
Motorola

Broadband:

Rombus
Microsoft
Oracle
Sybase
Cisco
CyberCosh
Fore Systems
Netscape
America Online
Chromatic

Applications

Wireless:

Too early to tell

Broadband:

Intuit
Microsoft
Sego
Electronic Arts
Adobe
Charles Schwab
TCI

intervention—a monopoly, duopoly or price supports—to get the infrastructure built. Such an approach would hardly be new in the telecom business. At some very fundamental level, monopoly has been the dominant operating characteristic of the telecom industry worldwide over the past 50 years. Governments have historically traded a monopoly or duopoly license for a commitment to build out and manage a very expensive, infrastructure-intensive communications network. Competition has generally been sacrificed to ensure (and accelerate) universal service.

When the government gives out a monopoly or duopoly, the value equation is very different from a competitive market. With the threat of competition gone, the value accrues in the early phases of the market—infrastructure and enabling technology. If you own the network, you get the value. And the odds are that the overall market will be much smaller than it would have been under a competitive scenario.

Now think about what is happening to telcos and cable companies today. As you infuse competition into the local telephone, cable-TV and cellular businesses, the value model of the industry collapses. And when it does, the effect will be exactly the same as stepping on a large cow pie in your hiking boots.

Telecom businesses are characterized by high fixed costs. There is no such thing as limited competition.

I believe the next few years will be very painful for established companies in the local loop. The level of competition is definitely rising in local loop telecommunications. The cable industry seems to be caught in the worst of both worlds: incipient competition and more government regulation of rates.

The problem is that the people running telcos and cable companies don't have the first idea about how to deal with competition. Success in cable and local telephone services has been a function of the ability to control frequency spectrum—or the equivalent—raise capital and deal with the regulatory process. Customers are just a necessary inconvenience.

Silicon Valley and Hollywood have interactive content on the brain. They all want a piece of the information highway. They'd like the operating system, but they'd be willing to settle for a couple of hours of prime time in every household in America. But most of all, they want no part of the infrastructure. High investment, no return.

We had better hope the telcos and cable guys don't

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come around to this point of view. Otherwise, things are going to get pretty dull in content land. The simple fact is, you can't create a content business without infrastructure and enabling technology to build it on.

Which means that all the wonderful stuff that Silicon Valley and Hollywood are working on will have to make do with the infrastructure we have now: Rock stars will make CD-ROMs with audio that sounds like an old 78. Channel-surfing will remain the state of the art in interactive television. And grainy little video windows will be with us long enough to cause blindness in laboratory rats.

Even scarier is the possibility that the superhighway deployment slows down so much that everyone starts to think about tinkering with the competition-based business model. In a worst-case scenario, we might even be tempted to grant a monopoly or duopoly to get things moving again. That might put a real crimp in Wall Street's dreams about the value of interactive content.

Funny thing is, few of the participants seem to be concerned. But we, as investors in this great technology future, can afford to exercise a little caution. I believe the transition from today's data dirt road to the future information superhighway is as inevitable as hyperbole in the White House. The only question is how long it will take.

Roger McNamee is a partner at Integral Capital Partners, a technology-oriented investment partnership founded by McNamee and John Powell in 1991.

ASAP

The Internet isn't a business and was never intended to be one. Rather, it's an academic experiment from the 1960s to which we are trying, so far without much success, to apply a business model. Today's Internet evolved from the ARPAnet, the first nationwide computer communications network, funded in the late 1960s by the Defense Department's Advanced Research Projects Agency. Founder Bob Taylor declared that there would be no charge on the ARPAnet for bandwidth—the amount of network resources required to send data over the Internet—or for anything else. This was absolutely the correct approach for the sake of computer research. But it poses a problem today in the effort to turn the Internet into a business.

Bandwidth Constraints. "There is no incentive on the Internet to conserve bandwidth," says Geoff Goodfellow, founder of RadioMail. "Since the cost per megabit drops dramatically when you upgrade from a 56K leased line [56,000 bits per second] to a T1 [1.544 million bits per second] to a T3 [45 million bits per second], some organizations deliberately add services they don't really need simply to ratchet up and justify getting a bigger pipe."

The newest justification for that big Internet pipe is Mbone, the Multicast Backbone protocol that makes it possible to send digital video and CD-quality audio signals over the Internet.

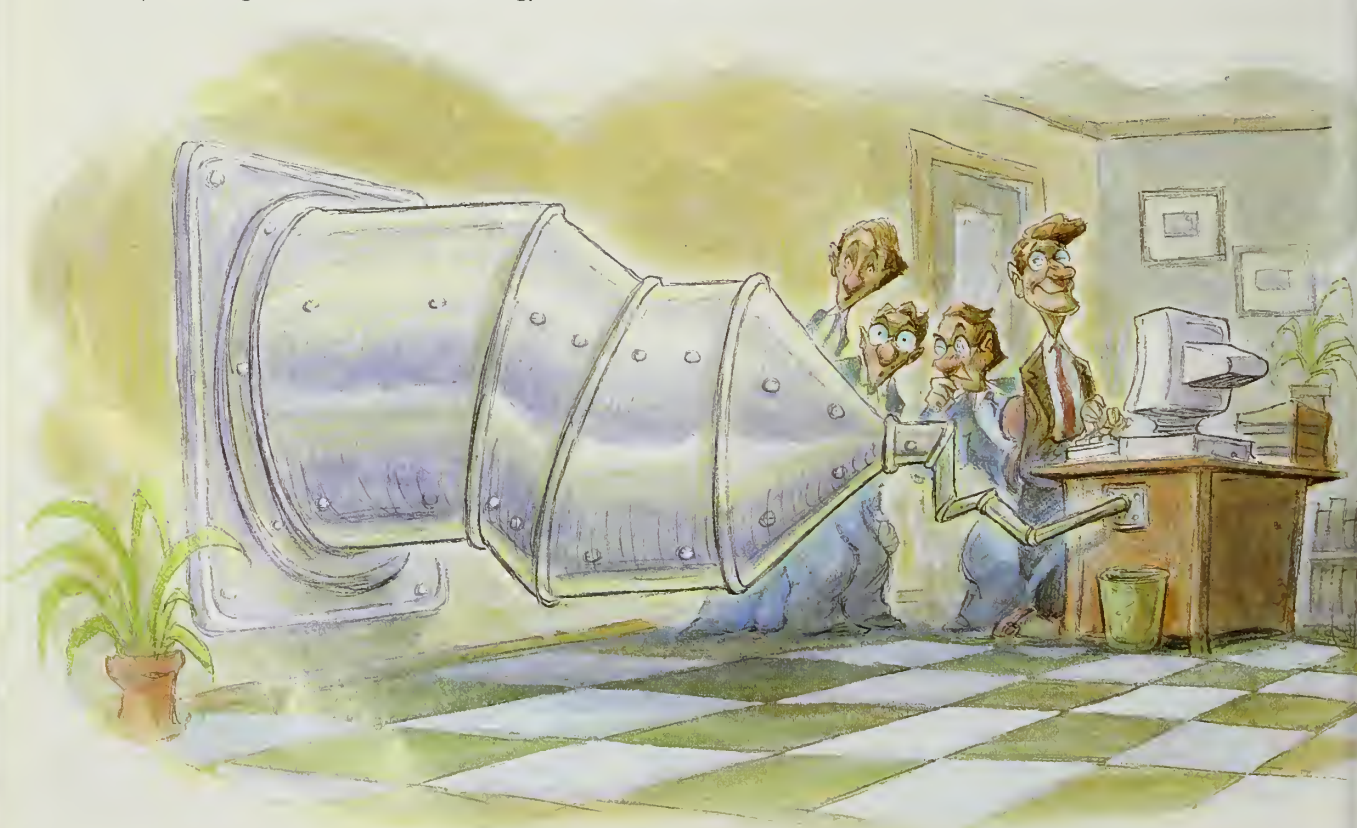
Some people think Mbone is the very future of the Internet, claiming that this new technology can turn the

Internet into a competitor for telephone and cable-TV services. This may be true five or 10 years from now. For most Internet users today, Mbone is such a bandwidth hog that it's more nightmare than dream. That's because the Internet and its fundamental protocol, TCP/IP, operate like a telephone party line, and Mbone doesn't practice good phone etiquette. Even the Internet backbone T3 lines, which carry the data traffic for millions of computers, can handle just over 100 simultaneous real-time Mbone video sessions—hardly a replacement for the phone company.

These bandwidth concerns will go away as the Internet grows and evolves, but in the short term, they're going to be a problem. The final solution may involve the death of TCP/IP itself.

"The 'I-way' will ultimately be multimedia, carrying a lot of video—broadcast, on-demand and teleconferencing," predicts Bob Metcalfe, who invented Ethernet at Xerox PARC in the early 1970s and today has the role of cyberspace pundit. "TCP/IP was developed originally for wide area networks running at 50 kilobits per second, then was extended for faster local area networks. It was *not* devel-

I-WAY



oped to carry multimedia. People say that the Internet is carrying multimedia today, but dogs can walk on their hind legs."

Eavesdropping. The Internet is like a telephone party line in another important way: Anyone can listen in. Though ARPAnet was developed originally to carry data between defense contractors, there was never any provision made for data security.

Who can read that e-mail containing your company's deepest secrets? Lots of people can. Every Internet message or file that passes through an interim router is readable and recordable at that router. It's very easy to write a program called a "sniffer," which records data from or to specific addresses or simply records user addresses and passwords as they go through the system. The writer of the sniffer

FAILINGS

1 Protocols and applications that are bandwidth hogs (e.g., Mbone and Mosaic) and client-server applications designed for local area networks that don't work correctly across the country.

2 Security: There isn't any. This is a particular problem for electronic commerce—the transfer of money over the Internet.

3 Finding knowledge in all that data. With 20 million networked computers, the Internet gives us access to all the data in the world, but no tools for finding anything.

EVENTUAL SOLUTIONS

1 Bandwidth explosion coming in two-three years with the advent of faster ATM networks and IP NG—the next-generation Internet protocol.

2 Data encryption. Either the U.S. government will relax its export controls on data encryption technology or foreign technology will fill the gap. Either way, robust commercial products are one-two years away.

3 Intelligent filtering from real-time data feeds and Web crawlers roaming the Internet are one-two years away.

INTERNET FAILINGS & SOLUTIONS

POTHOLES

The Internet grew out of ARPAnet, an intimate party line for scientists. With massive new use, the strain is showing: bandwidth limits, faulty security and a dearth of tools for searches are some current vexing problems.

BY ROBERT X. CRINGELY

doesn't have to be anywhere near the router, either.

The way to keep people from reading your Internet mail is to encrypt it, just as a spy would. This means, of course, that you must also find a way for those who receive your messages to decode them. The way to keep those wily hackers from invading Internet domain servers is to build so-called fire walls—programs that filter incoming packets, trying to reject those that seem to have evil intent. Either technique can be very effective, but neither is built in to the Internet. We're on our own.

Timing Problems. Alas, the Internet isn't very good at carrying the very programs we use to run our businesses, either. "We have to worry about bandwidth," says Judy Estrin, former CEO of Network Computing Devices Inc. "People have gotten spoiled by the Ethernet bandwidth [10 megabits per second] available on local area networks inside their offices. But client-server applications don't move well from LANs to WANs. Client-server programmers don't know how fast the link will be when it's designed. Delays happen across wide area networks, and in the case of the Internet, those delays are especially unpredictable. The result is that applications which work fine in the office may not work at all across the enterprise."

Navigating an Ocean. Then there is the very vastness of the Internet. The amount of available information on the

20 million computers out there is both a strength and a weakness. There is no standardized method for finding anything, no easy way of turning data into knowledge. Right now what we have is a library without a Dewey decimal system.

"It's not just information retrieval that's a problem, but information browsing," says Joe Kraus, the 20-something president of Architext Software, a Cupertino, Calif., maker of advanced tools for searching text databases. "People don't know what's out there. They also don't know what they are looking for. They need information navigation."

The Internet is enormous, clunky, and insecure. In another two or three years, the bandwidth limitations will probably disappear as new technologies arrive, giving us even more sophisticated ways to cram bits and bytes down our telephone wires. Fueled by a quest for Internet banking and credit card purchasing, we'll eventually apply to the Internet a uniform system of data encryption. Extra bandwidth will make our business applications run nearly as fast on WANs as they do on LANs. Search tools like Architext's software will gather our information for us and turn the Internet from a virtual community to a literal information resource. But that will be then, and this is now. Today the Internet is still far from ready for prime time.

ASAP

As the once-pristine Internet is commercialized with a vengeance, a new breed of entrepreneur is looking for action. Here, three companies with stakes in the Net biz game—why they got into it, and how. **BY MONUA JANAH**

I-WAY

David and Goliath

For Claudia Bach, who owns a business that sells copies of product specs to manufacturing companies, getting on the Net was a cheap way to reach customers worldwide.

Her company, Document Center, of Belmont, Calif., warehouses and sells copies of standards for building everything from microcircuits to hockey sticks. Bach bought the business, which the previous owner was running out of a garage, for \$5,000 a year for the life of the company. In its first month, January 1985, it had revenues of \$475. Last year, it turned in \$100,000 a month.

But while Bach was doing nicely, her competition was moving rapidly into electronic outlets. Information Handling Services in Denver, whose \$15 million Global Engineering Documents Division is a giant competitor of Document Center, began selling product specs on an array of electronic media, including CD-ROM and satellite broadcast. Bach, who employs 11 people, just didn't have the bucks to invest in electronic delivery of the half-million

documents she stocks. On the other hand, her prices for paper copies of some product specs (ranging from \$5 to \$300) were often lower than Global Engineering's. If more companies knew about the lower prices, she could still keep her market niche.

So in 1993, when Bach met Marc Fleischmann of Internet Distribution Services, which helps companies market products on the Internet, she was looking for "innovative ways to skirt the monster and sneak attack." While she couldn't start delivering documents electronically, she could at least stake out an Internet

presence to make her company better-known. And the corporate librarians and technical standards staff who ordered her documents were likely to know how to use the Net.

Fleischmann runs IDS at low cost out of his Palo Alto basement. His full-time staff consists of himself, his hardware of three Sun workstations. For \$2,500, he designed a Document Center site on the World Wide Web, including an interactive, database of the history of each product standard. He trained Bach in its use for \$2,500 more and charges her \$750 a month for maintaining the site on a workstation. Bach, who delivers updates to the database to him on magnetic tapes, says: "I would have had to be

brain-dead not to do it."

Since she set up the Web site (<http://www.doccenter.com/doccenter/>), Document Center has been fielding queries and orders from manufacturing companies all over the world, including Kuwait, West Africa and Latvia. (You can order by credit card via e-mail, phone or fax; delivery is by UPS, Federal Express or fax.) Business is up 10-15% and Document Center has nailed royalty agreements with two international standards groups. Obviously, Bach still can't compete with IHS (which has since set up its own Web site) for large corporate clients that can afford the electronic product specs. But, in an increasingly global manufacturing market, her on-line presence is helping to attract and keep what Bach calls the "next tier of customer down"—midsize and small manufacturers worldwide that need the product standards to do business globally.

"Trying Them All"

Big CUC International bought tiny NetMarket last November for one reason: It didn't want to miss any pots of gold at the end of the rainbow of infohighway-hype.

CUC, Stamford, Conn., is a \$1 billion home shopping and services company with 32 million members. For an annual fee of \$49, members can use services like travel and insurance and shop for 250,000 consumer items at guaranteed lowest prices. CUC is pushing aggressively into new media. NetMarket (<http://www.netmarket.com>), now an independent subsidiary, is developing a Web version of Shoppers Advantage, the 250,000-item CUC database. CUC, carried on many on-line services, is trying interactive TV, developing a CD-ROM and planning to put dining, travel and auto services on the Net.

Says CEO Walter A. Forbes, "We have no idea what the winning platform for shoppers is going to be and therefore we're trying them all."

NetMarket conforms to a high-tech archetype: a few young guys (four, in this case, three still in college) start a company, write great code and market it with flair. Chief Executive Daniel Kohn is now 22, two of the other founders are 23; the oldest is a venerable 28. Started in August 1993, NetMarket last July launched electronic stores on the Web for two companies, Noteworthy Music and 1-800-THE-ROSE. It also successfully integrated a data-encryption program called Pretty Good Privacy into software used to browse the Net. When CUC bought NetMarket, the company, financed by venture capitalists Walnut Investors of New York, was showing a profit, says Kohn, who won't disclose the figure.

But costs, once close to the bone, have risen as NetMarket has expanded: It has moved out of its original headquarters in a rented house in Nashua, N.H., to offices in Cambridge, Mass., and beefed up staff to 14. Can Kohn and



Claudia Bach, owner of the Document Center, says she would have had to be "brain-dead" not to put her company on the World Wide Web.

ENTREPRENEURS

company deliver the goods for CUC? Their strategy for selling CDs—allowing prospective buyers to see pictures of the CDs and listing the tracks—proved a winner. But convincing America that the Internet is a good place to look for TV sets, knives and lawn mowers is a different ball game.

"I could see an identical thing being said about 1-800 (phone) numbers," responds Kohn. "Some years ago, who would have believed that people would ever spend \$60 billion in direct mail orders—as they just did last year?"

Watch this alliance's future for clues on navigating the risky intersection of the Infobahn and Main Street.

Reading, Writing...Kinetics

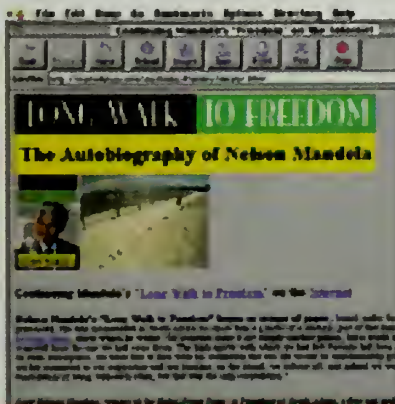
Stop by the Online BookStore for a lesson in cyberchic. Founder and president Laura Fillmore wants to redefine reading so that "it's not the private, linear experience that it was in the age of print," but rather a "distributed, kinetic" experience that encompasses links to texts and graphics worldwide.

In other words, OBS uses the hypertext technology of the Web, which allows "links" and pointers to other documents to be embedded in a document, to develop on-line versions of books and electronic teasers for books. In the process, OBS and its publishing clients are helping to redefine the notion of ownership of intellectual content: If you visit its Web site (<http://marketplace.com/obs/obshome.html>), which OBS leases from Cyberspace Development, you see an array of titles from various publishers. In a couple of cases, such as Colin Haynes's *Paperless Publishing*, published by McGraw-Hill, you can read the whole book on line, if you have the time and inclination.

In most cases, you can read parts of it, check out other texts, maps, news feeds, etc., that it points you to, and order the book. OBS, based in Rockport, Mass., believes in "distributed" publishing: It cooperated with Time Warner, Sun Microsystems and EUnet to release an electronic version of Nelson Mandela's autobiography, *Long Walk to Freedom*, simultaneously on servers in Germany, South Africa and the U.S.

Fillmore's roots are in traditional publishing: She started her own book-production concern, Editorial Inc., in 1982,

The Online BookStore takes reading from "private and linear" to "distributed and kinetic." Here, a Web page of Nelson Mandela's autobiography.



building it up to \$2.15 million in revenues in 1991. For years, she was leery of new media. "Then the Internet bug bit and I changed direction," says Fillmore.

What happened? In 1989, Editorial produced for Digital Press a book by Fillmore's friend John Quarterman called *The Matrix*, one of the first books about worldwide networking. Eager to show Fillmore the potential of a global network, Quarterman began plucking from the Net first-person accounts, posted by students in China, of the slaughter in Tiananmen Square, Beijing, where Chinese troops cracked down on dissidents. Fillmore was hypnotized: "Here was that someone had written only hours ago, half a world away. It spoke to me far more vividly than *Time* or the 11 p.m. o'clock news."

She began looking into publishing electronic books. In 1992, Editorial produced *The Internet Companion: A Beginner's Guide to Global Networking*, by Tracy LeQuey and sold the paper rights to Addison-Wesley for \$12,000. Fillmore, who held on to the electronic rights, used the cash from the royalties to launch her new business.

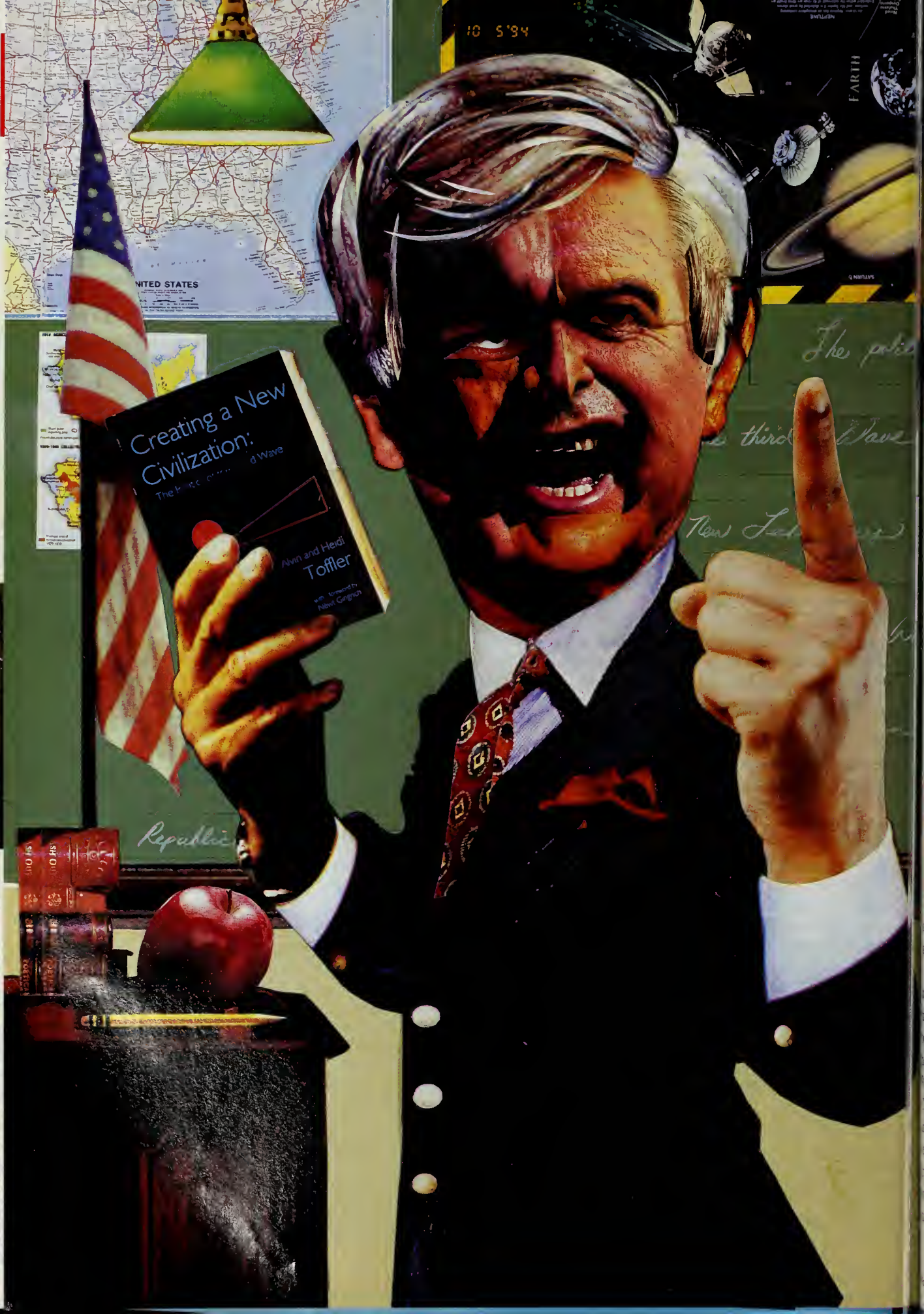
The number of "hits"—that is, the number of times people look at the site—at the OBS site has been doubling every month since July to 100,000 in November before leveling off in December. But neither Fillmore nor her clients can say whether that's translating into higher sales. John Christoffersson, an electronic publishing director at McGraw-Hill, says the company has seen "an enormous amount of traffic but relatively few buyers" at OBS and other Web sites where it has posted its books. OBS is projecting a loss of \$103,600 this year, almost double its 1994 loss, because, for the first time, it will be paying salaries to employees who have put in sweat equity.

Note: To call up these sites on the World Wide Web, the heavily used hypertext-based portion of the Internet, you need a) Internet access at a speed of at least 14.4 kilobits per second and b) a hypertext browser like Netscape or Mosaic. Type in the site's URL (uniform resource locator) address, which uses http (hypertext transfer protocol) to move files back and forth.

ASAP



Mere babes with the goods, NetMarket's 22-year-old CEO Daniel Kohn and his happy band sold their fledgling Web marketing company to home-shopping giant CUC.



NEWT'S BRAVE WORLD

The information age means more decentralization, more market orientation, more freedom for individuals, more opportunity for choice. Government must deal with it.

If you really want to weaken the Washington lobbyist, there is no single device that does it better than information, disseminated in real time. When people who are paying them to lobby are reading the same documents that lobbyists have, there's no longer any great advantage to being an insider. Everybody's an insider as long as you're willing to access it.

Why, given America's fabulous endowment of computers and networks, have we been so slow and so timid at changing government? I think the problem occurs at two levels. First, for those of you who have not read it, I want to recommend to you C.P. Snow's Reath Lectures on the BBC in 1959 called *The Two Cultures*. Snow, who is both a novelist and politician and a Ph.D. in physics, argued that over the last century, and particularly the last 60 years, Western civilization had broken into two cultures: a scientific engineering culture that largely spoke the language of math; and an arts and literary culture that largely

spoke the language of literary allusion. They had grown further and further apart. The result is that those who know are inarticulate and those who are articulate don't know.

And so you had this drifting apart. What you end up with is more and more politicians and more and more reporters who cover things they don't have a clue about. Meanwhile, the people who understand technology's potential literally cannot express that potential in a common language in a way that people understand.

Two other forces compound this disconnect. Most entrepreneurs who make breakthroughs are almost by definition psychologically uninterested in working in dull, slow processes in which most of their time is spent listening to people who don't know as much as they do. You add to that the apparent unwillingness of entrepreneurs, engineers and scientists to be politically active in any kind of practical sense, and what you end up with is a society in which lawyers dominate. We

get more laws to sue the few engineers who are left.

There's a second failure, and it's largely of the imagination. If you ask me where American society is today, I would argue that the most accurate analogy for where we are right now is not 1933, but the 1770s to 1800. That's when the English-speaking world went through the transition from the end of the medieval agrarian society to the rise of the commercial and ultimately manufacturing society. Out of that came waves of change that were very traumatic and very profound. The transition from the industrial era into the information age is very similar in forcing us to ask the most profound questions about relationships.

The central issues of our time are technological and cultural; they are not political. We are trying to figure out why Americans do technology well and bureaucracy badly.

The two best works of that period were both by the same man, Adam Smith. The book we seldom talk about, *The Theory of Moral Sentiments*, which precedes and frames *The Wealth of Nations*, is an inherently philosophical and moral work. It seeks to understand how human beings function, what drives them in concluding, as he put it, that there is a man in the mirror and that each of us seeks to justify ourself to a conscience.

Later Smith wrote what was largely, much like de Tocqueville, a book of reporting. *The Wealth of Nations* is Smith's description of the changes he was living through as Britain began to shift out of the medieval guild society into the commercial world market society. You can see *The Wealth of Nations* as almost a travelogue, almost the economic parable to de Tocqueville, who later does the same thing for an American society making a transition from republican virtue to democratic commercialism. Alexander Hamilton, the first to report on the debt, the Federalist Papers and the Constitution are all driven by Smith's world view, his wrestling with the nature of freedom and the nature of human beings. From that you then

begin to get radical change. Now, in the U.S. it's easy and obvious. We have a revolution, the Articles of Confederation fail, we have a second try. This is why I keep telling people, don't worry about occasional failures. The second try is the Constitution. It's worked reasonably well now for over 200 years. But it wasn't their first product.

Equally useful is to look at the role of Pitt the Younger in the 1780s and 1790s. Surrounded by the disciples of Smith, Pitt the Younger rationalized British tax policy to create the commercial environment in which so much wealth was made that people were able to fight the Napoleonic Wars. Britain was able to carry virtually the entire financial weight of the Alliance against Napoleon in a way that would have been literally impossible without Adam Smith's intellectual ideas being transmitted into the tax policies of Pitt the Younger.

What we're missing today is the ability to get people who are willing to think broadly enough about basic issues and then draw conclusions from their thought, and then the willingness of politicians to take those ideas and begin to apply them directly to the modern world.

My argument's very simple. The information age means more decentralization, more market orientation, more freedom for individuals, more opportunity for choice. Then you look at today's reality. Take the Health Care Financing Administration, a mid-1960s effort to apply European centralized bureaucracy to health care for the elderly. It is having, by the way, precisely the long-term results you'd expect. It is gradually cheating doctors and hospitals and will soon cheat the elderly. It is producing a very expensive, very bureaucratic product that is not allowing the citizens to have any choice about the expenditure of their funds for their lives.

This ought to be a no-brainer—we can offer better health care with greater choices at higher quality for more senior citizens by transforming Medicare, using information technology, than we can by the next 200 task forces on paperwork at the Health Care Financing Administration.

One of the challenges I've made to doctors is, I said, you're either going to go to Canada or to Wal-Mart. You can either go to a nationally controlled bureaucratic structure or you can go to the marketplace. But you're not going to stay in a guild status where you have all the knowledge, you share none of it. And I'll give you a simple example: My wife had a thyroid problem a couple of years ago. She called three different specialists and said, "What do

you charge?" None of them would tell her. That's nuts. And you should be able to access easily the database that says, "Here are the doctors in the area; here's what they charge; here's what their outcomes are like," before you walk in. And, by the way, "Here's where they studied and here's what therapies they believe in."

And yet there's no lack of potential. It's not a lack of ability to put it on line. It's not a lack of ability to teach people. Many of you remember when people didn't pump gas because if everyday citizens pumped gas, you'd set your car on fire. This was a serious debate in the 1970s all across the country.

Now, in that framework, let me give you just a way of thinking about this. First of all, I believe that the central issues of our time are technological and cultural; they are not political. Jeff Eisenach and Steve Hanser are the two people who drove me to this belief with a very simple analogy. We were trying to figure out why Americans do technology well and bureaucracy badly. This was in a pre-Clinton period—well, actually in, I guess, the early phase of the Bush administration. We were just trying to figure out why it is that bureaucratic models objectively, outside the military and very small elite groups like the National Parks Service or the FBI... As a general principle, create a bureaucracy in America and watch the decay set in. And yet that's not automatically true. I mean, you can argue that much of Chinese history was remarkably bureaucratic and pretty good. You can argue that German bureaucracy is a very impressive model. Our conclusion was that it's cultural.

As you know, in Germany, on the Autobahn, there's no speed limit. You can go literally any speed you want to. Many Americans rent a car, they're doing 100, they're excited and a Mercedes goes by at 160, they pull over and cry and they never fully recover from the experience.

If tomorrow morning the Bundestag adopted a 100-kilometer or 62-mile-an-hour speed limit, virtually every German would obey it the next day. Of course, at the next election they would massacre the current generation of politicians and they would elect The No Speed Limit Party. My understanding is that the American cultural response to the challenge of speed limits is substantially different from the German cultural response. In most of America, a speed limit is a benchmark of opportunity. How many of us find that as a norm we look at the posted number and add five or 10?

I'm going to make a point here. This was one of the two moments I became a revolutionary, and I'll tell you about the other one in a second. Because I want you to understand, this is what I mean by taking a general theorem and applying it to practical politics, reading Smith and suddenly replacing all of the medieval tariff laws and actually having huge fights. I don't know how many of you are aware of this, but the British army actually had fights with large units of people who were in the habit of bringing in contraband, I mean units so large that it took battalions of British troops to win the fights, because it was that profitable to cheat on the old tax code. And yet, Pitt the Younger was operating off of a theoretical model: A clean, simple, commercial tax code will lead to an explosion in productivity and will not only pay for itself, it will enrich the nation.

Well, let me give you the same principle: A country in which virtually every citizen drives over the speed limit is impossible to lead by bureaucratic regulation. By definition. And this is why the health plan last year was so crazy. By definition, a nation driven by incentives will wake up every morning and say, How do I get around the rule; what can my lawyer find for me; is there a consultant who knows the loopholes? And because the incentive for the individual always beats the incentive for the system, the bureaucracy will always be one layer behind.

But I believe that in the next few years there's going to be new hope. You're going to see genuinely a shift



towards a positive, optimistic mood. I believe, second, there's going to be a new dialogue. People are going to have access all the time. And this Common Cause nonsense that you can't get access to the speaker unless you pay money.... In the Sixth District of Georgia, if you get out of bed, put on your clothes, get in the car and show up at two in the afternoon, you have access. And if your congressman doesn't give you access, fire him and hire one who will.

The word partnership is very central to where we're going and, by the way, fits the information age and I think fits the Internet. Partnership means we both have responsibilities. Yes, I'll be compassionate, now what are you going to be? But don't tell me the job is entirely one way. Don't tell me you'd be glad to be rich but you don't want to work, you'd be glad to be wise but you don't want to learn. I keep reminding

Go listen to somebody who doesn't know anything about computers and listen to somebody who is terrified of the future. Understand where they're coming from and why.

people, the Declaration of Independence says we are endowed by our Creator with certain inalienable rights, among which are life, liberty and the pursuit of happiness. Pursuit implies getting up and doing it. It doesn't say happiness stamps, it doesn't say happiness entitlements, it doesn't say we need a federal department of happiness.

Recently the press harpooned me for suggesting a tax credit for laptops. I'll say it up front. It was a dumb idea. But let me tell you what I was trying to get at. I was trying to get at the idea that instead of saying, wow, all of the really sophisticated, well-educated, upper middle-class people, you get to be over here, and so we're going to take 30% of the country into the information age. I'm saying I don't know how we do it but we had better care about reaching out a helping hand to every American.

Now maybe it ought to be done by private philanthropy. Maybe it ought to be done by other kind of devices. Maybe private companies ought to do it. But somehow there has to be a missionary spirit in

America that says to the poorest child in America, "Internet's for you. The information age is for you. There's an alternative to prostitution, drug abuse and death, and we are committed to reaching every child in this country. And not in two generations or three generations; we're committed this year, we're committed now."

I am not, obviously given my background, recommending that what we do now is adopt a Soviet-style centralized institute of information distribution, but I am trying to start a debate, a dialogue, and to set up the notion of a partnership because it will change everything about where we're going.

The fourth point I would suggest to you is that out of this process a new team will emerge, so we have new hope leading to a new dialogue creating a new partnership. And why will a new team emerge? Because people, for example, like Bill Weld and John Engler and Tommy Thompson and Pete Wilson and Christine Whitman and George Allen are going to shock all of us. And people like Bret Schundler, and Mayor Rendell, who is a Democrat in Philadelphia, Mayor Norquist, who is a Democrat in Milwaukee, they go out and they do things you don't expect, and you suddenly start saying, now, that's leadership. That's not just some politician wanting patronage. That's not just somebody who wants the big office in the building. That's somebody willing to lay it on the line to entrepreneurially try to create a better future and who's willing to take the risks of doing it.

We need a new national dialogue, a willingness to look at ourselves and to be criticized in public and to think things through. If so, we can build a partnership at every level. I want to go back—we are going to go back to the 600,000 people in the Sixth District of Georgia and say, "You have a chance to be partners with the Speaker of the House." That takes real work. It's not obvious and automatic. It has to involve radically higher understanding of the potential of the information age than we have today. It is impossible to have an Athenian democracy with 600,000 people in an oral tradition.

What you've got to focus on is the notion that somehow we're going to get information out, we're going to have a dialogue among ourselves, we're going to get aggregated information back in, we're going to identify the most interesting and the best ideas, and they're not necessarily going to come from the people who we know personally or who fit in a social or other spectrum. I don't know how to do that. But information technology makes it possible, and so we must.

I came here in part today to say it's going to take a lot of smart people to invent this. We are at 1760 not at 1789. We are beginning to invent the America of the information age, we're not about to inaugurate George Washington. We don't yet know what in effect our intellectual constitution for the future is.

I would say to Forbes ASAP readers who think they know about the information age, come up with your best vision and your best strategies and your best projects. Then go listen to somebody who doesn't know anything about computers and listen to somebody who is terrified of the future, and understand where they're coming from and why they're afraid and what they don't get. Don't just keep preaching at them as though they were stupid. Dialogue—not debate—will in fact change things.

Let me also suggest to you that widespread information technology makes possible a consumer-directed government. You'll notice that my suggestion for a better Medicare task force starts with the consumer, the senior citizen. How do we empower them and make them consumers again instead of clients, because consumers have power, consumers can choose what they want to consume. But clients are told by the bureaucracy what clients should expect and what clients will do between nine and five.

I believe we have five goals. First is to make the transition into the third-wave information age that Alvin and Heidi Toffler describe, and to make that transition so that we are the most rapidly accelerating society on the planet. We must apply the principles of freedom and opportunity for all that are at the heart of America.

Second, to aggressively look at the world market as an enormous opportunity and to rethink every aspect of American society so we are the highest value-added competitor on the planet with the most productive systems yielding the highest take-home pay and the greatest range of choices.

Third, to commit ourselves to replacing the welfare state with an opportunity society, to insisting that every citizen have the full right to pursue happiness and that every citizen have the right to be safe, and to reestablishing power for every American to have control over their life and their destiny.

Fourth, to reestablish a citizen movement and a community movement. The information age offers a great deal, where we truly try to give people the capacity to talk with themselves, to work with themselves. I keep telling the governors this, the governors love the idea of defederalization.

What the governors mean by defederalization is instead of one big government in Washington we should have 50 state governments. And they know why power in Washington is bad, but they're not quite sure why power in the state capital is bad. And my argument is no, what you really want to do is disperse the power down to the citizens, and then you want to try to empower them with information and with relatively low-cost, easy access to each other, so you have a spontaneous capacity to work together that is truly remarkable.

Finally, we have to renew American civilization. More than any society I know of, America is a learned culture. People come to America and become American, they learn how to be American—their attitudes, patterns, habits. Again, compare our attitude toward speed limits with most places. We have to reestablish that. The reason is simple, and I'd say this particularly to libertarian friends: The weaker you want the bonds of coercion, the greater the strength of your culture has to be. That's the essence of de Tocqueville's message, that a free society has to be deeply committed to imprinting its civilization if it intends to have a very limited government. Because one or the other has to hold you together. You're either bound together by a strong state or you're bound together by a strong culture. But if both fray, you end up in Bosnia and Rwanda and Somalia and Haiti.

The above was adapted from a speech by Newt Gingrich (R., Ga.), Speaker of the U.S. House of Representatives, at a Progress and Freedom Foundation conference in January.

(ASAP)



IT HAD TO HAPPEN GILDER MEETS HIS CRITICS

ASAP contributing editor George Gilder ran into a buzz saw over recent bandwidth and big-bird articles.

Right after George Gilder took on feisty Tom Peters in the Battle of City vs. Country, we struck a low blow: We gave the exhausted futurist a mountain of mail he had to read and answer, quick. Here, we print a sampling of the responses to Gilder's piece on the onrush of bandwidth (Forbes ASAP, Dec. 5); a letter from Steven Dorfman of GM Hughes about an earlier article (Oct. 10); and Gilder's answers to all. Thanks, George.

Nicholas Negroponte

Director, MIT Media Laboratory
Boston



Debunking Bandwidth: When our world is fibered, the planet is like a desktop. Earth

is but a backplane for a single computer. True. But as mere humans, the bandwidth we're really interested in is the one that exists between us and computers, be they the size of a cuff link or a country. That bandwidth is often one we want to be smaller, not bigger. Most of us, most of the time, want less bits, not more bits. Sure we want gigabits, but only for a few millionths of a second at a time.

Remember the early days of computing when stacks of fanfolded output were dropped on an executive's desk? People caught on quickly; that was data, not information. Today, for some reason, we have forgotten some simple concepts about what constitutes meaning and understanding and where they come from. You. So while it is real easy to ship vast amounts of data and high-resolution images back and forth between computers and while it is suddenly possible to ignore geographic constraints,

let's not forget that in many cases "less is more" when it comes to bandwidth. Narrow channels force us to be smarter. Yes, bandwidth will be free, but so will computing. The future will not be driven by either MIPS or BPS, but information and entertainment content. Andy Grove does not need to worry about John Malone or Bill Gates. He has to worry about Michael Ovitz.

Mark Stahlman

President, New Media Associates
New York



Bandwidth to Burn: Now What Do We Do?

Gilder has made a case for vastly expanded bandwidth overwhelming the influence of the steady march of computing power. [But] what new

need will drive businesses to translate the inventions Gilder describes into significant new media opportunities? Apparently, it's the need for video-on-demand. [But] if this were a plausible mass market, the streets of New York would be filled with bicycle messengers delivering Tom Cruise with bags of Chinese food. No, during the next five to 10 years, bandwidth will certainly be consumed in much greater quantities—but for completely different reasons. We will dramatically extend ourselves and our social relationships with video-telephones. We will consume substantial bandwidth by substituting bandwidth for gasoline—through telecommuting. We will network to multimedia databases (such as the current Internet-based World Wide Web) and dramatically expand our range of social contacts—across borders, cultures and tribes.

Unfortunately for Gilder's bandwidth braggarts, these enormous markets will be built using a telecommunications technology which began deployment over 10 years ago—ISDN—and in which none of them has any important financial stake today. Unglamorous, ungainly, even downright ugly, ISDN (integrated services digital network) will be supplied by old time telephone companies (not cable companies) and it will be driven by the steady progress of personal computers—themselves now a 15- to 20-year-old industry. As has been widely noted, we tend to overestimate (sometimes dramatically) the near-term impact of new technologies and underestimate the long-range effects.

In this age, new technology hype has become an epidemic. Reality itself, as it turns out, is far more interesting.

Michael Slater

President, MicroDesign Resources, and Editorial Director, Microprocessor Report
Sebastopol, Calif.



Increasing bandwidth will provide computers with more information to process, and this

will increase, not decrease, the computational requirements. Having high bandwidth makes it possible for the interface nodes to be less intelligent, but this is not necessarily desirable. Furthermore, the time frame must be considered; high-bandwidth WAN (wide area network) connections are not going to be widely available for years, and in the meantime, computational power will continue to be critical as a way to mitigate bandwidth limitations.

No matter how much bandwidth is available, it is still very desirable to have high-performance computational ability in desktop systems. Rendering of three-dimensional images from mathematical representations, for example, is something that has widespread application not only in games, but in other consumer applications like home and garden design programs). Orders of magnitude more performance will result in direct improvements in such applications, and bandwidth is no substitute here.

Finally, with regard to the inclusion of signal-processing capabilities in general-purpose microprocessors, I disagree with Gilder's conclusion that this will not occur. Minor extensions to general-purpose architectures, such as the ability to perform four 8-bit additions in parallel using the

same hardware that normally performs a single 32-bit addition, will provide a significant boost for applications such as video decompression. The cost of adding these features is small, and the benefit is great. Sun and HP have already made such additions to their processors, and I expect Intel and other x86 vendors will do so in the future. Dedicated DSPs will always be able to provide higher performance, but the incremental cost/performance of adding functions to the host CPU is superior.

Michael E. Treacy

President, Treacy & Co.
Cambridge, Mass.

Treacy is co-author of *The Discipline of Market Leaders*



[Gilder's] view is founded on the narrow philosophy of technological determinism. It is a peculiar

and persistent form of myopia based on the wobbly assertion that the best technology will win in the marketplace. He who rides the best technological wave will ascend to glory. Oh, if it were only so! If technology determined success, there would be no Microsoft today. By any reasonable standards, MS-DOS, the foundation of Mr. Gates's empire, was an average technology when it was brought to market more than a decade ago. But Microsoft had all the other elements that created a compelling value proposition for its customer.

Value is what customers want. Intel has got what it takes and has been a value leader for many years. Andy Grove has already begun to direct Intel's development portfolio toward communications opportunities. He has

read the signals and made the call, just as he did several years ago when he vacated the memory-chip business, in advance of grinding competition and shrinking margins. With constant vigilance and change, Intel's success can continue for years to come.

Howard Anderson

Managing Director, The Yankee Group, and General Partner, Battery Ventures
Boston



George Gilder's analysis of the changes in the computing and communications tradeoff is

brilliant, concise, analytical—and flawed. His portrait of the rapid changes in communications and relative disadvantage of the old-line computer industry (Intel, etc.) does not overestimate the movement. It underestimates how the next 10 years will be the decade of Bandwidth on Demand.

Consider this:

- From 1995-2005, the cost of bandwidth will drop faster than the cost of computing.
- From 1995-2005, the cost of switching will drop faster than the cost of bandwidth.

Historical examples: The cost of a T1 line (1.54 megabits) coast to coast in 1985 was \$40,000/month. Today? Under \$2,000/month, a drop of 95%.

Assume the following: by 2000, computing is free, and bandwidth is free. Now—design the future!

The amount of money spent on ATM Research and Development (Source: Yankee Group ATM Planning Service):

- 1993: \$335 million
- 1994: \$550 million
- 1995: \$950 million

So Gilder is right on about the impact of ATM. In fact, Fore Systems, where our sister company Battery Ventures is the second-largest outside stockholder, carries a market capitalization of \$900 million—on a \$60 million sales base—demonstrating that the ATM value is well known within the industry.

This past year, the Yankee Group trained 5,000 end-users on the use of ATM technology and the most frequently asked question was, "How in the world am I going to use all that bandwidth?" But it was only 10 years ago that users thought they would fall off the end of the earth if they went faster than 2.4 kilobits!

Which leads to some immutable laws about networks, which Gilder alludes to:

- Networks always grow.
- Networks always become more complex.
- Networks find applications that double the bandwidth needed every three years.
- The cost of bandwidth is artificially high.

Andy Grove is right: "Only the paranoid survive."

G. A. Keyworth, II

The Progress and Freedom Foundation
Washington, D.C.



George Gilder's article goes yet another step in establishing him as the forefront

"signal-to-noise processor" of information technology. Yet, I confess to being somewhat confused by it.

My dilemma resides in what I will call the "30-30 rule"—that we humans can take in information at only about 30 megahertz through our eyes or, even slower, at 30 kilohertz through our ears.

The kinds of bandwidth that Gilder projects are important to machine-to-machine communications, i.e., to networks, but it is the computer (in some form, whether PC, PDA, digital-phone or digital-TV) that will continue to determine the "match" between bandwidth and the inherent limitation of the 30-30 rule.

Bandwidth is important, because it will make the connection a richer one, but the fact remains that we humans lack broadband input channel to access all that bandwidth directly. And it is the computer that must bridge that gap, keeping it in the driver's seat as we enter the realm of ubiquitous, connected computing.

Gilder's article makes an additional point, and one that falls too often on deaf ears in Washington. That is that bandwidth scarcity, the basis for much of our telecommunications regulation, is an outdated concept. Only major revamping of the government's role in telecommunications will permit the natural competition between computing and communications to play out.

Eric Schmidt

Chief Technical Officer
Sun Microsystems
Mountain View, Calif.



Gilder's article does a wonderful job showing the potential impact of the bandwidth revolution. Let me give you two examples of approaches in computer systems to exploit enormous bandwidth increases:

The speed of light is not doubling every 18 months. There is a revolution in system design for small, fast

machines just as significant as the one for broadband networks in your article. What we call today "large servers" will in fact have to become physically very small. We are now approaching "design for light speed" in computer systems, and we have to keep our handy ruler, measured in nanoseconds, ready for each new board design. Light travels about four inches in a nanosecond in today's wires, so that, in a 500-megahertz (two nanosecond) computer design, we have less than eight inches of room for our signals to travel in a synchronous processor design (as most are). This means that the fastest computers in our future will also have to be the smallest!

The backplanes of these machines have to be physically very short. The limit of a single backplane makes it hard to keep up with the improvements in processor speeds, using traditional backplane designs.

Switching becomes a core strategy for computer systems. Two approaches that merge switching and architecture are now popular. One, called Distributed Shared Memory, uses a switching network to link cache-coherent memories together. In DSM computers, the power of shared memory designs can be extended over very high-speed switched memory networks. The other, called clustering, has been around for at least 15 years, and uses a switching network to link computer systems. In this approach, applications are modified to share common disks, peripherals and software.

Small size and switching are the future of high-performance computing. Both are based on networking as their core. As the switched networks get faster these architectures will come to domi-

nate computing. The fastest improving technology, in this case networking, always drives the architecture. The hollowing out of the computer occurs when high-performance computers truly span networks. ATM (asynchronous transfer mode), now in its infancy, is the likely network for us to bet on.

Bill Gates

Chairman and CEO
Microsoft
Redmond, Wash.



George Gilder's piece on bandwidth was good. But I don't understand how Intel gets hurt unless it stops delivering the best price/performance microprocessors. The more network connectivity the more we need MIPS. Andy Grove is right that DSPs are just a complex way of getting more MIPS. Just because bandwidth reduces some of the need for compression doesn't mean bandwidth reduces demand for cycles.

In any case Gilder is very stimulating even when I disagree with him, and most of the time I agree with him.

Steven Dorfman

President, Hughes Telecommunications and Space Co.
GM Hughes
Los Angeles



In "Ethersphere" (Oct. 10), Gilder offers the view that high-powered geostationary satellites—the mainstay, high-capacity platforms of our past, current and future service offerings—are already antiques, and soon

will be displaced entirely by thousands of low earth orbiting satellites. That these highly touted systems are nonexistent, unlaunched and unproven [and require major technical breakthroughs] are details that conveniently escape Gilder's scathing assault on geostationary systems.

Gilder should recognize that new technology products are designed and brought to market based on a host of considerations in addition to pure technical feasibility. Tradeoffs are—must be—made. But to Gilder, "trade-off" would appear to be synonymous with "sellout."

In the corporate world, this is business naivete. In deciding what form Hughes's new Spaceway and DirecTV services, for example, should take, our goal was to deploy systems that: maximized technology insertion, thereby minimizing risk; provided a low-cost service for which there was demonstrated consumer demand; and faced minimal regulatory, technology-development, or financing delays, thereby expediting service introduction.

A Ka-band GEO system, evolved from U.S. defense communication satellite applications, Spaceway is the logical extension of Hughes's universe of 120,000 very small aperture terminal antennas worldwide, used for private network, two-way voice, data and video. Our nine-satellite regional approach provides global coverage at a cost of \$3 billion. Because service can be rolled out incrementally, revenues can be generated before full system deployment. (By contrast, virtually all 840 Teledesic satellites must be operational—at a \$9 billion system cost—before service can begin.)

Our comparatively low investment cost and highly

efficient spot beam architecture, whereby we cost-effectively target our capacity to the world's most populated regions, yield significant savings and low user costs...critical because developing nations with limited communications infrastructure are a key market.

For voice, we expect that developing regions without access to low-cost terrestrial voice service will embrace Spaceway despite the fractional time delay—at least until terrestrial infrastructure is available. This is a significant, revenue-generating window of opportunity for us. As for data applications, our VSAT experience has shown that custom-developed protocols provide totally acceptable throughput efficiency and seamless interactivity. In short, we believe "the delay issue" has been overstated. There is a different delay issue, however, that cannot be overstated. Gilder is, I believe, overly optimistic about how soon Teledesic's technology will be ready—and hence, how soon service revenues can be generated.

I believe Spaceway is the best technological solution for this market at this time. But if tomorrow the technology and market are in place so that the LEO system makes sense, rest assured that Hughes will introduce an innovative LEO product of our own.

Gilder attaches far too little import and value (in the form of operating profits) to today's technology. Nowhere is this more clear than in his assessment of satellite direct-to-home television programming. Gilder calls DBS "one-size-fits-all programming," stressing its lack of sufficient consumer choice and absence of interactivity. But in holding out for a fiber solution, Gilder is making a poor business decision.

Today, Hughes's two DirecTV GEO satellites are filled with 150 program channels. We are adding 3,000 subscribers a day, and will break even (three million) by mid-1996. With 10 million subscribers projected by 2000, DirecTV will be a \$3 billion a year business, with \$1 billion in operating profit.

Waiting for the future, Gilder, carries a price tag most CEOs can't afford, and are not prepared to pay.

George Gilder Replies:



I want to thank my correspondents for their alternately poetic, ironic, trenchant and pithy responses. So many of them, though, share the notion that I predicted dire straits for Intel that I must assume a lack of clarity in my treatment of the issue. I predicted that new and larger opportunities would arise in the field of communications processors and systems—that central processing units would bear a declining share of total processing not that they would in themselves decline in any absolute sense. Indeed, CPUs should continue to improve their cost-effectiveness apace with Moore's Law, plus an increment for architectural advances in parallelism. Such advances, however, will fail to keep pace with the onrushing expansion of bandwidth, as further detailed by Howard Anderson's intriguing letter. Bandwidth gains will be fed on the demand side, as Mark Stahlman incisively observes, more by the needs of teleconferencing and telecommuting than by the need for one-way video-on-demand.

Thus I agree with Bill

Gates that Intel can continue to thrive as long as it continues to produce the most cost-effective microprocessors. I did raise the possibility, foreshadowed by Microunity's new semiconductor fab process, that Intel's existing technology might face rivals that could produce more MIPS or gigabits per second per watt. Power efficiency will be a crucial index in a time of seething CPUs and increasing demands for power-saving designs from producers of mobile appliances, such as the digital cellular communicators which will be the most common PCs of the next decade.

Focusing on gigabits per second as a prime spec, these devices may well eclipse CPUs in raw processing pace and find a wide range of applications in digital radio, real-time compression and decompression, pattern recognition, echo-cancellation and other digital signal processing uses. The demands of these applications have already impelled an array of processing and architectural advances at Microunity, Texas Instruments and elsewhere in the pullulating field of DSP. Unconstrained by proprietary legacies and immense installed bases, perhaps other manufacturers will also find ways to excel the Moore's Law pace of Intel's majestic progress down the learning curve of three-volt CMOS technology.

Jay Keyworth and Nicholas Negroponte both eloquently point to the central paradox of the information age. While production systems of the industrial age use scarce resources, such as land, labor, and capital, to create abundance, production systems of the information age use abundant resources, such as bits and bandwidth, to create knowledge scarce enough to fit the bandwidth of humans. This distillation function—

delivering correct and useful data to human beings with their Keyworth window of roughly 30 kilohertz cochlea and 30 megahertz retinas—requires processing speeds orders of magnitude above the human rates, just to sample, quantize and codify the flow. To scan, select, recognize, correct, decompress, echo-cancel, visualize or otherwise manipulate the data entails still further accelerations of processing power.

Communications processors may well emerge as most efficient for many of these tasks. The idea that all such functions will be sucked into the CPU has a long history, but motherboards and their buses remain as crowded as ever. I suspect that the bandwidth explosion will offer many opportunities for processors specializing in communications.

Steven Dorfman of Hughes, I predict, will do better both for his company and his two-way communications from space by moving quickly rather than slowly to low earth orbits. I fully share his admiration for the point-to-multipoint-powers of DBS and I have long cited them as a prime reason for the obsolescence of cable TV regulations based on the assumption of monopoly. Indeed, I predict far more than 10 million users by 2000 if Hughes and its suppliers can meet the demand. But satellite and cable TV vendors will prosper best by providing two-way channels for the 110 million personal computers in the land. I expect that these channels—particularly CATV, not ISDN—will provide the dominant access channel for computers over the next decade.

Above all, I hope that whoever Andy Grove fears most, it is not Michael Ovitiz. Grove goes Hollywood and we'll all be in trouble. ■

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ASAP
INTERVIEW

LAURA TYSON

D.C. techies cheered when she became chief economic adviser. Two years and a tax hike later, the jury's still out on whether the technology industry is better off.

WHEN PRESIDENT Clinton chose Laura D'Andrea Tyson two years ago as his chief economic adviser, wonks inside the network of Washington's technology-policy think tanks applauded the appointment. For years, policy boutiques such as the Institute for International Economics and the Council on Competitiveness had issued white papers detailing what they saw as a declining U.S. technology industry that couldn't compete with the economic juggernauts of Japan and Germany. Finally, one of their own, a member of the Washington technology crowd, had made it to the White House.

Tyson has published many books and papers about technology, often collaborating with Lester Thurow and Chalmers Johnson. One in particular, *Who's Bashing Whom: Trade Conflict in High Technology Industries*, caught the Clinton team's attention. The book said there were "market imperfections" in high technology, and called for "cautious" activism on industrial policy.

After two years, the assessment of Tyson remains mixed. The CEA chairman initiated a \$1 billion federal program, the National Flat Panel Display Initiative, to serve as a "case study" for other industrial projects. Peter Mills, CEO of the offshoot Flat Panel Display Consortium, tells Forbes ASAP the group will help U.S. electronics companies recover from the "strategic miscalculation" made by ceding 95% of the flat-panel market to Japan. Tyson has worked on other technology projects too, and she says federal legislation to free the telcos and cable companies to compete could quickly add \$100 billion to the



The deficit reduction helped give up the sustained period of declining interest rates. That was an important variable, at a moment when the economy needed an injection....I don't know of any study that would relate income tax rates on the rich to the creation of high-tech start-up companies.

economy. Tyson recently met with Forbes ASAP to discuss those and other questions.

ASAP: We've read your book, *Who's Bashing Whom*...

TYSON: I haven't read it in a couple of years.

ASAP: We presume you know it, though.

TYSON: I hope so.

ASAP: The book elliptically refers to the famous "potato chips and computer chips" statement made by President Bush's economic adviser, Michael Boskin.

TYSON: There's some debate, though, whether it was him.

ASAP: That's true. But it is generally attributed to him. What do you think? Does it matter for the economy whether the U.S. makes potato chips or computer chips?

TYSON: We know where the U.S.'s comparative advantage is—it's moving in the direction of technology and skills. Sectors do differ. In my book, it shows that they differ on wage levels, on education levels, on R&D intensity levels, on export levels. And it seems to me that over time, it is important for the economy to evolve in ways which generate opportunities for high-wage growth in technology-intensive industries.

ASAP: You pushed for the National Flat Panel Display Initiative, for a specific sector. What's the thinking behind that?

TYSON: The argument is that flat-panel displays are a very important element in high-technology defense strategy, which is what the U.S. has and is likely to have more of in an era of declining defense budgets. So if you



take the notion that displays are an important component of the national defense, then the question becomes how best to design policy in pursuit of the objective of having a reliable supply base of displays.

ASAP: About 110 companies have signed up for the consortium. What does that show?

TYSON: What it's showing is that there are companies interested in competing for the R&D support, and that they are willing to, as a condition of competing, commit to funding half of the R&D activity and also commit to setting up the production activity in the U.S. So we set the terms of the competition, a condition which had not been set before.

You can't spend money for a production base that decides it is really for civilian

purposes and it is not going to sell to DOD [Department of Defense].

ASAP: But we're getting mixed signals about this program. We talked to Peter Mills, the CEO of the consortium, and his idea of the consortium is to compete against Japan in the commercial market.

TYSON: The companies can easily have that as an objective. They're spending half of the research project's total money. Presumably, their interest is not just the DOD, but the civilian market. So I'm not surprised at that. Here you have

goals on the government side, and goals on the private-sector side, which are complementary.

ASAP: Why should the government step in and fund this, though?

TYSON: The Japanese companies have made it very clear that they are not going to be suppliers to the Defense Department.



ASAP: With the end of the Cold War, hasn't the idea of government involvement in the economy become passé?

TYSON: No, with the end of the Cold War, the U.S. will begin to underinvest. We had a whole economy that benefited from R&D spending. Most of that was for defense and space. What we're trying to do is pay more attention today to dual-use technologies—those that have a defense and space and civilian application.

ASAP: When you were appointed, there was a lot of interest in the Washington technology-policy community because of your background in these issues. What sort of agenda did you have?

TYSON: I think that the technology bent of the administration was formulated very well during the campaign and has been carried out. We have been involved in those efforts. So this is true that this council knows about these issues, and is working on them. But the agenda itself was very well-defined in the campaign—to shift funding in ways that programs would move toward the marketplace.

ASAP: What accomplishments have you had during your tenure here?

TYSON: On technology? Yeah, we can talk about technology. We worked on the telecommunications policy with the office of the vice president. The Technology Reinvestment Project grew out of a commitment to use technology dollars to aid defense conversion. The questions were: How do you do that? What's the form of competition? What are the guidelines? We've also been thinking about questions concerning foreign participation.

ASAP: Do you think the [1993] tax increases and deficit reduction helped improve the economy?

TYSON: For short-term improvement, yes. I would stand by our analysis. The deficit reduction helped give up the sustained period of declining interest rates, and that was an important variable, at a moment when the economy needed an injection.

ASAP: Executives have said to us, "If the administration wants to help the technology industry, why has it raised

taxes on the wealthy, who provide funds to help start-up companies?" What would you say to that?

TYSON: What I would say to that is that I don't know of any study that would relate income tax rates on the rich to the creation of high-tech start-up companies.

ASAP: How often do you talk with industry to discern the impact that such policies will have on them?

TYSON: There's no organized mechanism. Some people call, come through. Or I give speeches. We tend not to get industry-specific requests, which is nice.

ASAP: That's how business has access to you. What kind of access do you have to your boss, the president?

TYSON: What a strange question! We have a regular briefing with him once a week. We deal with him several times a week in terms of analysis, statistics. And then, in any given period of time, it depends on the issue.

Tyson's chief of staff Tom O'Donnell bursts into the room.

O'DONNELL: Gene, Gene. I would like to establish some ground rules here. What kind of a story is this?

TYSON: Well, I think we went all over the place. We were talking about tax policy and...

O'DONNELL: We can be on the record. I don't know. I didn't hear any of the answers. We can be on the record on technology, but will have to clear some of the other answers because we've gone too far afield. Is that all right?

ASAP: We'll fact check everything with you. We have fact-checkers who do that.

O'DONNELL: No. I'm not talking about fact checking. I'm talking about clearing quotes. Do you have any disagreement with that?

ASAP: You can't stop in midstream and...

TYSON: We can stop you right now. Your attitude through this whole thing has been what I would call not particularly easy.

O'DONNELL: Gene, Gene. It's over! OK. And I'll talk with your editor. Is that Forbes or Fortune?

TYSON: Forbes.

O'DONNELL: OK. Thanks.

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By OWEN EDWARDS



HAS AMERICAN INDUSTRY gone soft? Maybe not on the business side of the ledger, but when it comes to nomenclature in the technology mills, definitely. Ever since some nerd wordsmith saw fit to differentiate "software" from hardware, an industry that is shaping the future as dramatically as the railroads once did has been awash in names as limp as anything produced by the "self-fulfillment" movement.

What's in a name? Fair question. After all, a rose by any other name still costs \$75 a dozen in downtown Manhattan. And if some hard-charging company with a sensational price/earnings ratio happens to be called, let's say, TeenyFlaccid Inc., the stock isn't worth a penny less. But the names of companies and products affect the way consumers feel. When Minnesota Mining & Manufacturing starts referring to itself as 3M, more is going on than just the search for a tidy logo. A shift takes place; smokestacks and muscular labor give way to smooth glass corporate headquarters and ungritty work done at uncluttered desks.

When the industrial revolution changed the world, companies' names reflected the materials they used and the work they did: U.S. Steel, Standard Oil, General Motors, International Business Machines. A brawny sound of sinew and sweat evoked the

power of the country itself.

With the second industrial revolution, just a few years back, the name game went lame. Maybe the fault lies in the essential materials. Sheets of steel drove the first great wave of American expansion; wafers of silicon are powering the second. Once, you could sing about a "steel drivin' man" and paint murals celebrating giant gears and cogs, but who can rhapsodize about "clean rooms" where technicians in shower caps examine tiny glass chips? John Henry doesn't work here anymore.

At the heart of the matter—and the technology—is the semiconductor. To the untutored ear, this device has an equivocal sound, like something that does a job halfway. In "semi" lurks a hint of caution. Insiders know better, of course. But my guess is that in the public's mind, timidity is what makes semi run.

Downsizing, Linguistic Division

The problem is one of scale. In technology, small is decidedly beautiful. Where once we glorified Big Steel, Big Blue and Detroit's Big Iron, now we obsess about how much data can dance on the head of a pin. The result has been a rash of eensy-weensyism that makes an impact industry sound like the enterprise of elves. It's tough to be inspired in a big way by a Santa Ana, Calif., company called Microsemi, however impressive its work. Can there be a more self-contradictory name than Micro Dynamics? Or more curious than Micro Warehouse? The micro imperative has produced MicroBilt, MicroProse (of which I've written my share), Microtec, MicroTouch, and so on down the slippery slope.

Then there's the soft factor. If only the stuff that makes everything go had been called Workware, or Force-

ware...anything with a little bite to it. But no, the Dali-esque landscape is littered with such nominal jellyfish as Softbridge, SoftKlone, Softool (oh, please!), Soft-Kat, KidSoft, PeopleSoft. And, of course, Microsoft, an 800-pound warm and fuzzy gorilla. Accurate names, maybe, but not exactly hard-hitting. Which is why Ross Perot didn't approach the Pentagon with a company called Soft anything. Ross is made of sterner stuff. Electronic. Data. Systems. End of story.

Because so many information technology companies started small operations, with idealistic ambitions, New Age-isms abound. There's Apple, of course, with its back-to-Eden implications. And a veritable Heliopolis of warm '70s suns: Sunflex, SunPics, SunSoft, Sunrise Software, and before long, no doubt, Sunny & Shareware.

The industry's generational clock is ticking, however. Consider this: The young people now joining the ranks of technology consumers have grown up at video screens, vaporizing aliens, karate-chopping goons, and generally raising hell. The games these people play have big, scary names like Doom, Streetfighter and Mortal Kombat. They are a kick-ass lot, far from the Woodstock Nation and "We Are The World." Small wonder, then, that the word "power" is suddenly the hot new mantra. Witness the shift of the Computer Solutions company to Powersoft, taking it halfway to the new world. The "power" ploy makes sense. Wouldn't somebody who has zapped a million monsters rather have a PowerBool than a Newton? It's time the industry's marketers went to boot camp, to emerge with triceps pumped and body fat burned away.

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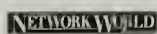
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that real people are trying (e.g., the EMI Records Group story, in this issue).

Success, says premier car dealer Carl Sewell (as honest as the day is long), hinges on grand theft. Sewell turned a little dealership into a \$350 million empire by reading and touring—lifting any idea from anybody in any industry, then adjusting it quickly to his circumstances. His dealerships are a dab of Marriott, a touch of American Airlines, some Mansion at Turtle Creek. Sewell's approach goes miles (and miles) beyond tidy benchmarking schemes: It is a ceaseless and catholic passion for cherry-picking ideas that may work at his place.

Go for youth! Information systems is a game for the young! In the last issue of *Forbes* ASAP, ABB boss Percy Barnevik said that, though he was trained as a computer scientist, at 53 he was an IS has-been. This 52-year-old thinks Barnevik is exactly right: I watch six-year-olds take to software, manuals be damned, with a wonderful recklessness that I can only dream of. That's not to say there's no role for us graybeards, but mostly it means that the 24-year-olds (and younger) really get this stuff. Beware an aging IS staff (i.e., too many 31-year-olds).

Dare to be outrageous! Some 40% of would-be buyers "actively disliked" the mock-ups they saw of Renault's prospective Twingo; on the other hand, 10% "fell in love." That would have sent most firms back to the drawing board. The inevitable result: The "problems" that bugged the 40% would have been fixed—and the pizzazz that caused the minority to fall in love would have also been rubbed out. In this (rare) case, Renault decided to gamble on the passionate 10%, and quickly discovered they had a full-fledged winner on their hands.

As the use of market research has increased, so has the onslaught of dull products. While I'm not opposed to listening to customers or line extensions, rip-roaring successes *only* emerge from those who dare to follow their quirky bliss to someplace no one else has ever been before. Most who

follow this path fail, of course; on the other hand, those who dare to be outrageous and succeed by traveling their lonely roads are responsible for virtually all the world's progress.

Support mindless optimism! I have a good friend who is determined to make things right. She allows her passions to capture her, and routinely takes on apparently quixotic ventures—then ends up, most of the time, pulling them off. Sanity has its place, but an unrealistic belief in the possibility of success (as measured by decision-tree pruning procedures taught at

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the average B-school) lies behind almost all nifty new products and services. While such unrealism (okay, arrogance) will eventually trip up its carrier, it nonetheless remains the prime driver of accomplishment.

Never look back! Henry Royce refused to add a reverse gear to the Rolls-Royce until 1933. He didn't believe in going backwards.

Though extraordinarily intense, the best leaders I've encountered have a remarkable ability to sleep well and wipe today's muddy slate clean before they douse the lights. Though driven by a burning desire to make their whatever better, they take life as it comes, shrug off reverses and refuse to be overly contemplative...or install a reverse gear.

Honor paradox! I know of no wildly successful designer or CEO or corporate trainer who is not a perfectionist. I know of no wildly successful designer or CEO or corporate trainer who does not have a high tolerance for disorder. This contradiction may not rest comfortably on the shoulders or between the ears, but it seems to me to be an essential fact of (successful) life.

Tell the truth! Politics is life, in two-person families and 200,000-person businesses. But that's a cop-out. Some families—and most businesses—are hopelessly "political." Intrigues consume most of the day. Others, though frail (as are all humans and human institutions), are built on a foundation of truth-telling. Bad news is not sugar-coated (and the messenger thereof is rarely if ever shot). Contention is normal. Teasing is common. Super-large egos are regularly batted down. And perennial intriguers are dismissed.

Basic ideas like these often get lost in the shuffle of evermore (apparently) clever gurus' schemes. Hence this tiny effort to right the balance. Fine, you say; but, dear guru, if one subscribes to the above, what do you do about it?

For one thing, *think about it*. Bedrock notions like rushing to prototype and embracing screwups are ignored amidst the craze for reengineering or visioning or learning organizations or God knows whatever the next 12 months will bring. If you're not consciously (and continuously) addressing the 11 issues I've raised here, you are missing the speeding boat.

Second, understand that you *can* hire and reinforce these traits. If you want a bunch of fearless (of failure) passionate action-takers in your fold, then recruit passion and impatience (forget credentials); and give your new hires instant responsibility, quickly promoting those who succeed.

As for yourself, fret ceaselessly about staleness: What precisely have *you* done in the last 120 days (at age 28 or 58) to genuinely wake up and shake up your own routines? A personal rut is danger No. 1 in today's topsy-turvy climate!

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EMPHASIZE THE RIGHT STUFF

AH, THE JOY of *good* friends! "What's it feel like," asked one, an inveterate tease, "to spend your life helping middle managers rearrange the papers on their desk?" I didn't know whether to laugh or cry. In any event, it got me thinking about what's really important. And what's not.

This magazine is devoted to the earth-shattering world of modern information technology. Yet most of us (even Forbes ASAP readers) are waltzing toward the future when break-dancing may be more appropriate. Paradoxically, to get from here to a very elusive there in this Absurd World Order, we must focus on some very old-fashioned stuff:

Build it now! Sometimes I think I've only learned one lesson in my 52 years: Just do *something*. Innovation guru Michael Schrage insists that a passion for hasty prototyping is the single most important dimension of new-product success. I agree.

Some people and some (most) firms ponder and ponder. Some just instinctively fiddle—with a new application, a new retail format (in a corner of the store, at least), new catalog copy, whatever. In the world of information systems, where a generation lasts only a few months, there is an abiding necessity to quit making the Ultimate Solution—and get on with cobbling something together *fast* that will allow you to learn enough to take the next step...fast.

Embrace failure! American society suffers from a debilitating disease at exactly the wrong time: an urgent desire to be protected from all risks. At the drop of a hat someone will sue his or her broker for lousy stock picks or a manufacturer for designing a lad-

Quit seeking
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information systems.
Get on with cobbling
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fast.

der that doesn't perform well when both legs are placed on ice. How tragic for a nation born and bred on entrepreneurship—i.e., a willingness to go for it, an ethos of perpetual reinvention, a readiness to discard yesterday's skins with as little thought as the snake getting set for the year ahead.

At age eight or 68, one moves forward into the unknown via many trials—and many, many errors. One *leaps* forward courtesy many *big* errors. Error is the spice of life, for rock climbers, artists and information systems and purchasing professionals alike.

The organization, small or large, high-tech or low, that revels in screwups is moving in the right direction. "It's the mistakes that really count if you want to get ahead," a scientist friend of great renown reminds us.

Keep smiling! You'll never do anything *interesting* right the first, or

31st, time. Given that obvious fact, success at anything ends up being built on an institutional (as well as personal) sense of humor. Shops and labs and marketing departments that peal with laughter about life's quirks are healthy. Those that don't, aren't. By the way, you *can* do something to make this happen. Southwest Airlines' iconoclastic chief Herb Kelleher swears he hires people, first and foremost, based on their sense of humor. Hint: He's serious.

Cherish curiosity! Some people are always nosing about. Some keep their noses clean. Curiosity is normal at age six, much less so at age 26 after the school system has drummed it out of most of us.

"Twelve is about Ben [Bradlee]'s real age," said a close friend of the legendary *Washington Post* editor. Bradlee himself confessed to "compulsive spontaneity" and "advanced immaturity." These are not the traits you read about in leadership texts—and yet they are precisely what makes for success in these increasingly ambiguous times.

Steal the world blind! Editor Rich Karlgaard used his opening statement a couple of issues ago to rip the business schools for being hopelessly behind the times; today's front-edge researchers, he said self-servingly, are reporters. As an old B-school guy, at first I was put off by his remarks. Then I realized that he was right.

I don't read columns like mine. And certainly don't waste time with the *Harvard Business Review*. Instead I scour the pages of this magazine, *Computerworld*, *Information Week* whatever, for the details of neat stuff

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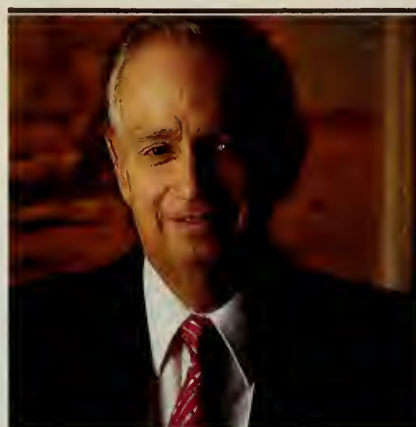
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Cover illustration by Hal Mayforth

"The reasons we Daytime Running

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You're driving in broad daylight. Suddenly, a car's lights catch your eyes. They could be new daytime running lamps (DRLs). These special low-intensity headlights help alert other drivers with light, like your car horn can alert them with sound, according to Minotas, a member of General Motors' safety team. They're simple, practical, and

believe in
"Lamps are obvious."



General Motors.

because they come on automatically. And research shows they reduce collisions, and that help save lives. GM is introducing daytime running lamps in 1995, and they'll be shining its vehicles by 1997. Right now, no other domestic auto company offers them. Jay says hopes that will change: "The sooner every car and truck has DRLs, the safer we'll all be."

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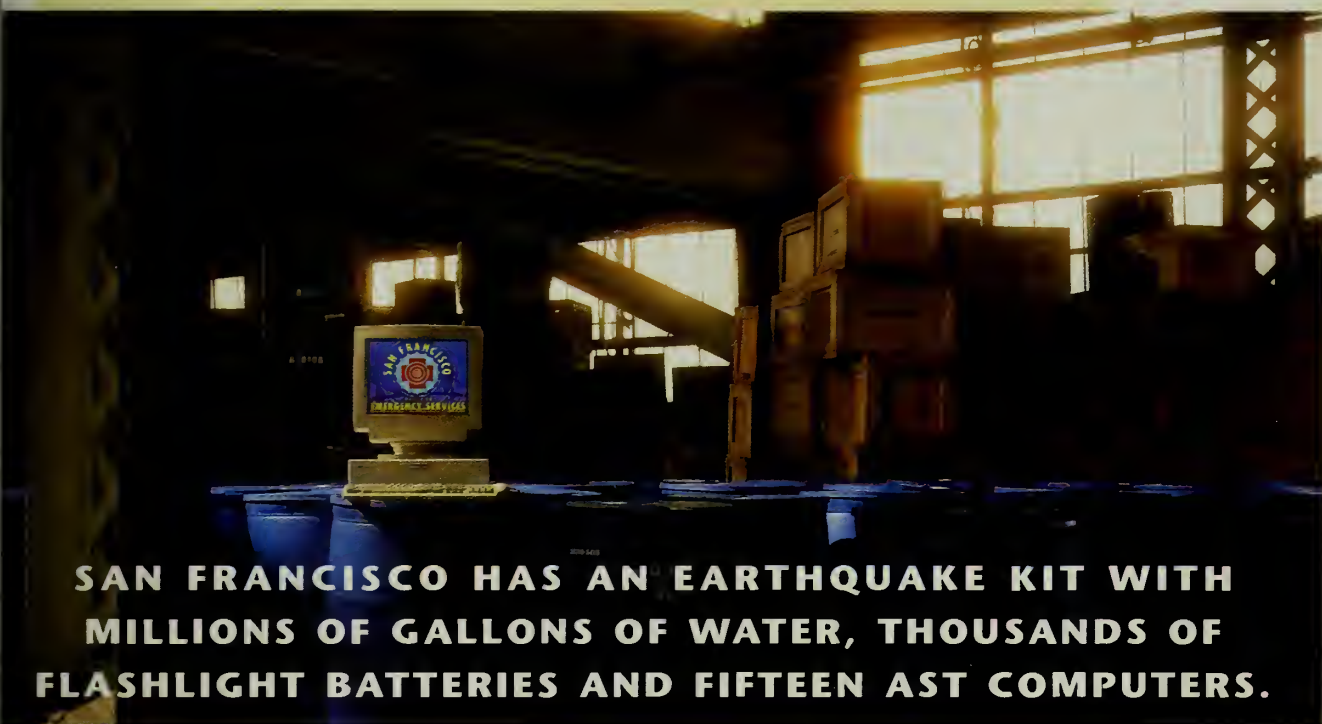
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You can't take it (all) with you

APPARENTLY SENSING AN OPPORTUNITY to do some capitalist-bashing, an essayist in *Time* magazine late last year criticized FORBES' Nov. 2, 1994 cover story, "The new refugees." The scribbler missed the irony intended in the title and, with much indignation, insisted that rich tax-dodgers did not deserve to be called refugees.

Of course we were not expressing sympathy for tax-dodgers, they rich or poor. We were making a point: Any nation that levies confiscatory taxes on wealth risks driving wealth away. Our sympathy isn't with those who give up their citizenship but with ordinary people who lose jobs and potential jobs when capital departs.

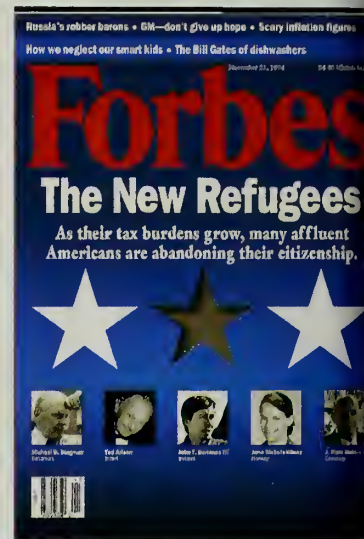
In our article we said—based on information from the State Department—that 305 people renounced U.S. citizenship in 1993. We are now told that the numbers given us were too low, that in fact there were 697 expatriations in 1993. And here's the latest on people who give up their U.S. citizenship to save on taxes: On Feb. 6 the Treasury Department proposed the Tax Compliance Law of 1995. Bob Lenzner, who co-wrote the article with Philippe Mao, explains: "The proposed law provides that Americans relinquishing their citizenship must pay a 35% tax on appreciated assets at the time they give up their citizenship. This special departure tax would not apply to gains of less than \$600,000.

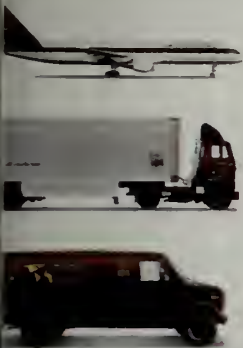
"But," Bob adds, "the Tax Compliance Act of 1995 will not close all the escape hatches. Even after paying a 35% exit tax, an expatriate can still hold 65% of his net worth free from taxes forever. He avoids the 55% maximum estate tax. He avoids paying a tax on cash gifts to children or grandchildren, who often are still American citizens.

"Second, inherited fortunes wouldn't be subject to much exit tax at all. That's because heirs get a stepped-up basis for assets at the time of the donor's death. Let's say you inherit 1 billion shares from your entrepreneur father. Then you expatriate. Since you get the stepped-up current market price for the shares, rather than your father's cost basis, you don't own assets that have appreciated for tax purposes.

Lenzner reports that these Treasury proposals face tough opposition in Congress. It's not that legislators sympathize with rich tax-dodgers. It's that they realize it's time to worry less about soaking the rich and more about changing the tax code to make the country more hospitable to the capital that produces jobs and economic growth.

James W. Michaels
Editor





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There is a popular notion (albeit misconceived) that a sports car must, by definition, contain a manual stick shift and clutch pedal.

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Needless to say, we'd like to suggest otherwise. And our reason for doing so is the new M3 Automatic. Stablemate to the car Automobile magazine honored with its 1995 Automobile of the Year award.

Indeed, there was no shortage of accolades for last year's M3. It made Car and Driver's 1995 Ten Best list and Motor Trend's ranking of the Top Ten Fun Cars.

The rest of the automotive establishment was just as complimentary. AutoWeek wrote, "Everyone who drives an M3 wants one in his or her own garage." EuroSport Car said, "This car would be an absolute joy to drive on a daily basis."

And here, perhaps, is one of the many pleasures of owning an automobile like the BMW M3. It is truly a car for driving every day. Whether equipped with the manual transmission Car and Driver called "effortless," or the optional 5-speed automatic.

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Cassandras revisited

CHARLES MORRIS and Charles Ferguson, coauthors of *Computer Wars: The Fall of IBM and the Future of Global Technology*, were totally bearish on the computer giant when FORBES visited with them one year ago (Feb. 14, 1994). IBM has since logged its first annual profit in four years, and its stock price has jumped 42%, to a recent 75, adding an impressive \$12 billion to the firm's market capitalization.

So, are Morris and Ferguson ready to eat some crow? Not really. Morris concedes they may have been excessively pessimistic a year ago but says they really haven't changed their tune. "I think [Chief Executive Louis] Gerstner and IBM are showing absolutely zero ability to create or acquire strong positions in anything new," says Ferguson. "Basically, they get an A+ for tactics and an F for strategic vision."

Ferguson's gripe: He says IBM's parallel processor computers that rely on its old mainframe operating system and are vital to its future are no



IBM watchers Ferguson and Morris
Bearish as ever over the future.

match for rival client/server systems such as the Hewlett-Packard 9000 Unix Server Line and Compaq's Rack-Mountable ProLiant 4000. Instead, Ferguson says IBM should slash mainframe and AS/4 minicomputer spending and invest in newer areas, such as networking equipment. To jump-start its personal computer unit, IBM should acquire Dell or AST Research, Ferguson advises. —JULIETTE ROSSA

Food fight!

"WHAT'S MINE is mine, what's yours is mine." Such thinking enabled the McCain brothers—Harrison, 67, and Wallace, 64—to build \$3.2 billion (1994 revenues) McCain Foods into the world's top french fry merchant (Aug. 2, 1993). The



problem: The brothers' in-your-face attitude didn't bode well for a smooth family succession.

Sure enough, things have since turned nasty at the privately held firm's New Brunswick, Canada headquarters. With both brothers jockeying to have their own children assume management control, the clan has been fighting in and out of court over everything from plan expansion to charges that Wallace, son Michael, head of U.S. operations, gouged the firm's Canadian and European units.

Result: McCain's board recently ousted Wallace as co-chief executive, leaving Harrison in charge. Game to Harrison? Not yet. Although Wallace failed in his recent effort to go cash for his 33% of McCain Foods, battle continues. The longer it goes on, the more likely it is to disrupt operations—and leave image-conscious clients like McDonald's, one of the McCains' largest, with a bad taste in their mouths.

—TODDI GUTNER BLUM

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"We think our actions on the cost side and changes in product, packaging and pricing will restore our competitiveness," says Robert Hirsch, Paragon's acting chief financial officer. Investors aren't convinced. And even with Paragon trading below book value, they're unlikely to return back in without signs it can prosper in the harsh new environment.



Forbes ■ March 13,



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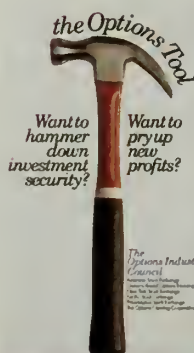
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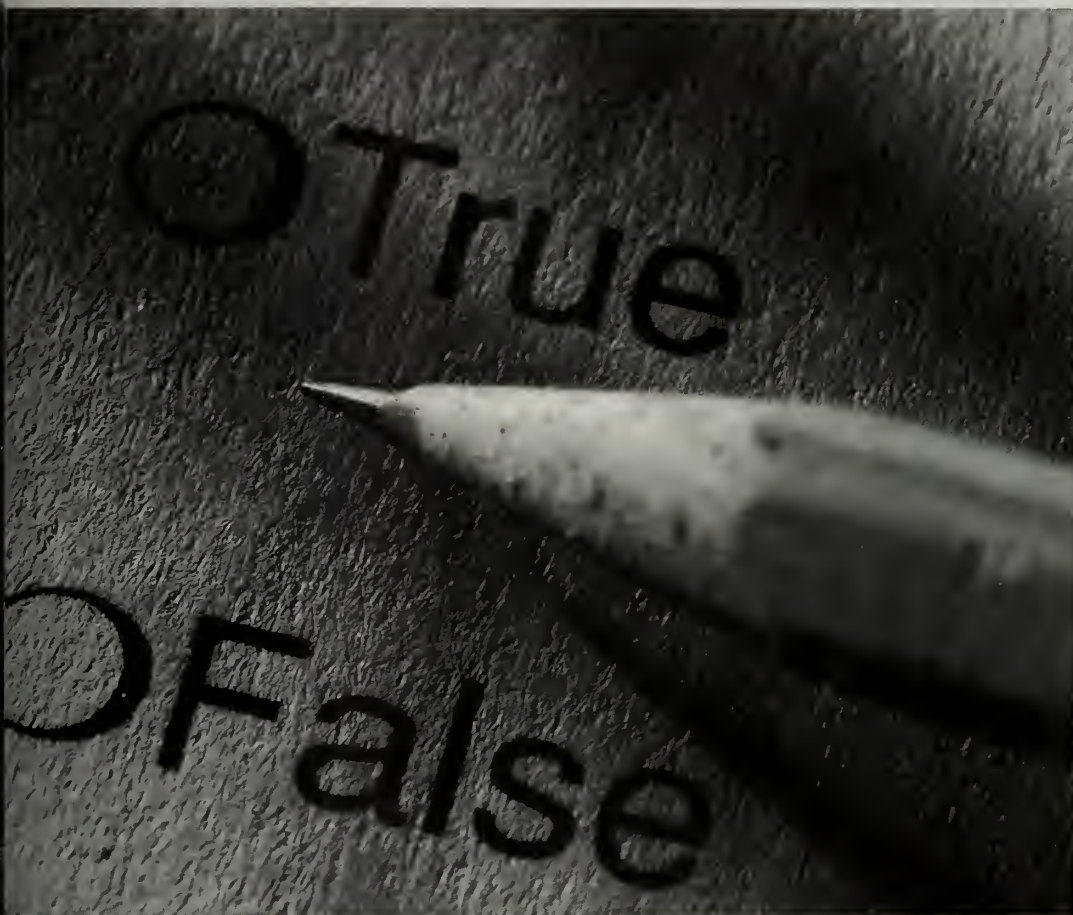
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Jeffrey, we hardly knew ye

WHEN JEFFREY KATZENBERG quit Disney seven months ago, there was talk Katzenberg would sue if Disney didn't provide an adequate settlement on his contract. Now Katzenberg is well into the creation of DreamWorks SKG with partners Steven Spielberg and David Geffen, but

Alan Tanenbaum/Sipa



Jeffrey Katzenberg and Michael Eisner

To sue or not to sue . . .

so far there's been no settlement. What about that lawsuit?

No comment from Katzenberg. Says Disney boss Michael Eisner: "It is irrelevant to the course of our company whether his contract is settled, or whether in fact he has a contract at all. This is a speck on the horizon." —LISA GUBERNICK

Who'll pay Mo most?

SPEAKING OF Katzenberg and Eisner, the big question is which one will get the services of music industry legend Mo Ostin, who officially leaves Warner Bros. Records later this year. It's rumored Ostin, who didn't return calls for comment, has also talked to Viacom about launching a label there, but one record company executive who's worked closely with Ostin says: "I think it's coming down to Geffen or Disney."

At first, music insiders assumed Ostin was a shoo-in to end up at DreamWorks with his old colleague David Geffen. But that was before Eisner let drop at an analysts' dinner a few weeks back that he was trying to lure Ostin to Disney. Ostin reportedly has told associates he doubts Geffen can write the kind of check Os-

They deserve each other

HERE'S A MARRIAGE destined for Battling Bickersons fame: Donald Trump and Euro bad boy Thomas Kramer recently announced they're teaming up to build a proposed 700-unit high-rise condominium and hotel on the southernmost tip of Miami Beach.

Since he washed up in Miami Beach in 1992, German-born Kramer has distinguished himself by such hijinks as a Halloween bash complete with chocolate dip on the belly of a naked woman (FORBES, Mar. 1, 1993). He made another splash when he paid over \$100 million—much of that money coming from his stepfather-in-law—for high-priced homes and 45 acres of Miami Beach waterfront.

One of Kramer's latest deals: He paid \$4 million for a mansion on Mi-

Thomas Kramer and Donald Trump

Who's in charge here?

Bill Wax



Bob Strong/Sipa



tin would want to start up a new record business. Which, according to our source, should leave Disney "way out in front, so long as Eisner doesn't cheap out." Says Eisner: "Mo Ostin would be great for any company to have." —L.G.

Scratched?

HOUSTON-BASED financier Charles Hurwitz, the onetime raider who runs \$2 billion (sales) Maxxam Inc., made a fortune sniffing out undervalued assets. But Hurwitz should have stuck to aluminum and forest products. Maxxam's foray into the horse track business has pulled up lame before even reaching the eighth pole.

ami Beach's tony Star Island, \$3 million in a note held by the seller. As partial collateral, Kramer put up another Star Island house he owned. That collateral is now dust. Kramer razed both houses, and the dismayed seller wants the money he's owed.

Trying to win back credibility with the bankers, Trump knows and like these could cause trouble, which is why he maintains he'll be in charge of obtaining the financing for the Miami Beach condo project and will control more than 50% of the venture. Kramer, says Trump, will be "a very limited" partner.

When asked if Kramer will stand for minority status, Kramer spokesman Heinrich von Hanau replies: "It's not going to be that Mr. Trump will have more than 50%." Let the fireworks begin. —MATT WAI

Last April, with great fanfare, Hurwitz opened the \$75 million Sam Houston Race Park in suburban Houston. But the purses were too high, and he soon made a public show of cutting them sharply—a nightmare that sent the owners of better horses fleeing. Result: Bettors on simulcast races from other tracks often beat the handle for live race at Hurwitz's track.

Hurwitz considered goosing up the action with other forms of gambling, like poker and off-track betting. He even proposed building a casino that would feature simulcasts of Sam Houston's races. But his plan no site fell through, and Texas' new governor, George W. Bush, has opposed casino gambling.

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BY RALPH LAUREN

In January Sam Houston missed interest payment on the \$75 million of high-yield bonds Hurwitz bought to finance its construction. The bonds have sold for as little as 20 cents on the dollar, but several smart money investors, including Carl Icahn, have passed. Hurwitz currently is negotiating with bondholders and other creditors. He's offered bondholders 50 cents on the dollar and reduced interest. But if the track files for bankruptcy, Maxxam may be forced to write off its \$14 million investment and sell as forgo more than \$2 million in management fees. Poor Charlie Hurwitz. He wouldn't have left the stall.

—CHRISTOPHER PALMERI

man

REMEMBER WHEN "X" caps, "X" T-shirts and other "X" products were all the rage a few years back, during the marketing of the movie *Malcolm X* (REBES, Oct. 12, 1992)? The "X" craze has since subsided, but the merchandising of the slain black activist is on. New York-based Olmec Inc., a privately held multimillion (sales) company run by former *New York Times* reporter and Harvard M.B.A. Yla Eason, has come up with a plastic, 7-inch-high Malcolm X figure that has a movable head and arms and comes with a podium, microphone andlector card.

Introduced in time for last Christmas, the figure is being marketed in a limited edition of 12,000, priced at \$13, and is part of a collectible series called "Our Powerful Figures." (The first figure was of Martin Luther King; to come, Jackie Robinson and Harriet Tubman.) According to Olmec, sales are brisk—good news for Malcolm X's widow, who controls his estate and collects licensing royalties from the company.

—R. LEE SULLIVAN

Malcolm X figure
From activist
to collectible.

Busting the cartel

SIR: Re "Comeuppance" (Feb. 13). Thank you, thank you, thank you for the "educational" and enlightening article concerning the former professional organization known as the National Education Association. When I taught school the NEA and Parent Teachers Association were professional and support groups. I don't even recognize them now.

—DORIS A. MURRAY
Jacksonville, Fla.

For more readers' responses to this article, see p. 166.

A Unique celebration

SIR: I am greatly distressed and dismayed by the unwarranted negative tone of your reporting on the upcoming 50th anniversary of the United Nations ("A tough sell," Feb. 13). Of course, there will be the inevitable whistles, drums and fundraising (and why not?), but let neither the noise nor the necessary appeals obscure the record: Against all odds since 1945, World War III has *not* happened, nuclear proliferation has been *limited*, the membership in the U.N. now counts more than 100 *democracies*, and smallpox has been eliminated. Although the Bosnian crisis revealed striking weaknesses in the U.N. system, the Secretary General has helped keep hope alive as the U.N. protection force feeds hundreds of thousands of people daily and has succeeded in preventing the conflict from spilling over into neighboring countries. The goal is not to "sell" the U.N., only to remember the fires



First session of U.N. General Assembly
Pushing 50.

from which it emerged and to commit ourselves to its search for peace and universal human rights.

—THOMAS B. MORGAN
President and Chief Executive
United Nations Association
of the U.S.A.
New York, N.Y.

Surfing the superhighway

SIR: No question there's a lot of hype on the Internet ("Where's the money?" Jan. 30). The secret, though, isn't for companies to set up their own Web sites but to take advantage of the umbrella of existing popular Web sites. For instance, "Academe This Week," the 16-month-old service offered by the *Chronicle of Higher Education*, routinely logs 35,000 to 40,000 individual readers every week. In all, they make well over 500,000 hits a week. As a result, it has attracted a variety of outside organizations that are interested in providing information to readers in Academe, including the Annenberg-CPB Project, Fidelity Investments, Lotus Development and TIAA-CREF.

—ROBINETTE ROSS
Publisher
Chronicle of Higher Education
Washington, D.C.

SIR: FORBES doesn't only suffer from a lack of vision, it needs a reality check. Over 2 million people worldwide already are ordering their groceries, Cokes and over 12,000 other products and services from the Amway Corp. clearinghouse via interactive distribution, resulting in a 1994 volume of \$5.3 billion.

—VICKI and PETE GIANANTE
Rowland Heights, Calif.

Fallout

SIR: Steve Hanke accuses the American welfare state of attracting ever-larger numbers of low-skilled and deadbeat immigrants onto U.S. shores ("Peso refugees," Jan. 30). Congress' 1986 immigration reform substantially raised employers' costs and risks of hiring immigrants. A predictable consequence is that immigrants' wages fell and some immigrants who would have otherwise

found jobs now remain unemployed. Much of the recent change in immigrants' income and employment prospects is explained by U.S. immigration "reform" rather than changes in the kinds of people seeking refuge in America.

—DONALD J. BOUDREAUX
Associate Professor of Law
and Economics
Clemson University
Clemson, S.C.

A common link

SIR: Re Fact & Comment (Feb. 1). I would appreciate Christine W. Man's effort at reducing taxes. There is no doubt there's a link between higher property taxes and the need for local municipalities to increase taxes, she chooses to make appear she is fiscally responsible. Instead, she leaves the problems created for the next governor and the property owners of New Jersey. —STEPHEN A. SELLER
Philadelphia, Pa.

Gaining control

SIR: Re "A dishonest slogan" (Opinion, Thomas Sowell, Jan. 30). A cut in the capital gains tax will merely contribute to the hatching of a new crop of corporate raiders and financial wheeler-dealers.

Since corporate raiders typically seek to make maximum gain in the shortest reasonable time, while entrepreneurialism tends to require a longer-range vision, it might make no economic sense to sculpt a three-year capital gains tax.

A relatively high average capital gains tax set for a "short-term" period such as three years; a lower, moderate tax set for assets held over three and under seven years; a quite low or no tax for assets held seven or more years.

—BERNARD SARACHEK
Professor, International Business
University of Missouri
Kansas City, Mo.

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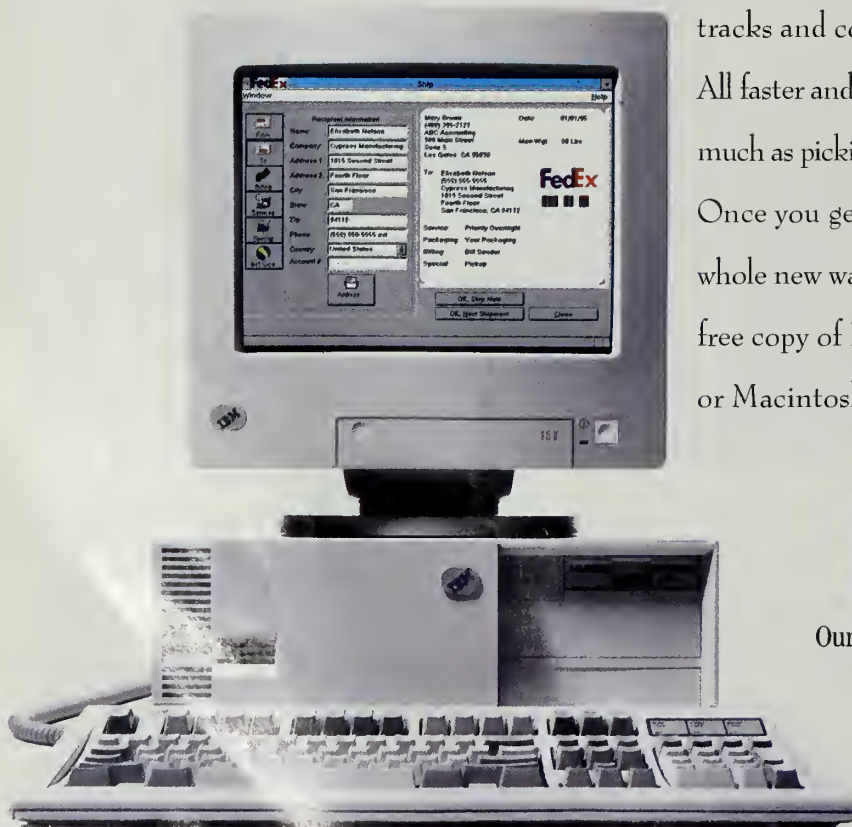
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Fact and Comment

Malcolm S. Forbes Jr., *Editor-in-Chief*



HEALTHY SOLUTION

A FEW MONTHS, Congress will again take up the contentious topic of health care. To solve most of what ails our system, the national legislature should establish tax-free medical savings accounts.

This simple vehicle would dramatically change for the better the whole dynamic of the way we finance American medicine. We would get a free-market, individual-oriented approach. One hundred million consumers would decide this market instead of employers, insurance companies, increasingly arbitrary HMOs, and government bureaucrats. The integrity and the constant innovation characteristic of the current system would be preserved.

To understand the potency of medical savings accounts, ask a simple question: Why is increased demand for automobiles, houses, computers, clothing, etc. considered positive, while increased demand for health care is regarded as a crisis? The answer: tax code distortion. Companies get a deduction for health insurance premiums; individuals do not. Even the self-employed get a deduction only 25 cents of each health care dollar. Not surprisingly, most insurance is bought by employers. People are misled into thinking that somebody else is paying for their medical costs. There is little or no positive reward for individual good behavior. The bulk of private-sector health care forms are lots of stick, very little carrot. No wonder costs have skyrocketed for decades and are now being controlled

by the increasingly heavy-handed strictures of HMOs.

Once you understand the perverseness of our tax code, the answer is simple: Equalize the tax treatment of individuals and corporations for health care expenses. People should be allowed to set up medical savings accounts, which could be funded with pretax dollars by employers or employees, or both. Any money not spent in a given year for catastrophic insurance and routine medical expenses would remain in the account as the property of the individual and would grow tax-free.

The chief virtue of tax equality and this medical version of an IRA is that it gives people more control over how their health care dollars are spent. Most people would choose a policy with a high deductible, saving enormously on premiums and banking those savings. They would have incentives to get the most value for their money. This is called consumerism and free enterprise, which are more effective cost containers than are bureaucratic decrees.

Medical savings accounts would give individuals insurance portability. If you lost or changed jobs, you wouldn't lose your insurance because the policy would belong to you, just like homeowner's or automobile insurance. Medical savings accounts would also allow consumers to change their coverage as their conditions changed. They would be able to build a nest egg for unforeseen emergencies or to supplement Medicare when they turned 65.



Plastic surgery: Little inflation here. Costs are controlled because consumers pay the bill.

BRINGING SOME JUSTICE TO CIVIL JUSTICE

SENATORS Mitch McConnell (R-Ky.) and Spence Abraham (R-Mich.) are readying legislation that would dramatically turn the tables on the trial lawyers who clog our courts with oft-frivolous, increasingly burdensome lawsuits. Instead of trying to apply the English Rule here—wherein lawsuit-losers must pay the legal expenses of winners—the senators propose a procedure that avoids the charge of “stacking the deck” against the little guy vis-à-vis big corporations and that would bring faster justice to injured plaintiffs.

Under the McConnell-Abraham bill, when an injury or accident takes place, the potential defendant can settle the

case by immediately offering to pay for the victim's medical expenses and lost earnings. If the victim (potential plaintiff) accepts this offer, his lawyer cannot collect a contingency fee. The injured party can still reject the offer and file suit to collect money for “pain and suffering.” Under those circumstances, no payments are made until the case is ultimately settled in the courts. If there are awards for pain and suffering or punitive damages, the plaintiff's lawyer can collect a contingency fee based only on the difference between the ultimate award and what had originally been offered for actual losses.

The impact of such an approach would be stunningly

healthy. Insurers would have an incentive to quickly settle claims for actual losses. The consumer's claim would be made good on right away instead of his having to file a lawsuit that could take years to settle or could end up being unsuccessful. No longer would there be asbestos-litigation tragedies, where some diseased workers received only a few thousand dollars while their lawyers rapaciously raked in millions. Of the \$9 billion spent on asbestos cases, \$3 billion has gone to the victims and \$6 billion to the attorneys.

Trial lawyers would be less inclined to file flaky suits in the hope a defendant would quickly pay off a plaintiff to avoid the expense of a trial. These vultures would have a harder time inducing accident victims to go to court if the victims could recover their actual losses immediately. Opposition to this reform

would expose the true motive of the trial bar: not concern for the little person but sheer greed.

Representative David McIntosh (R-Ind.) may introduce a variant of this approach for auto insurance. If you were in an accident your insurer would pay your medical bills and lost earnings. The other party's insurance company would pay their losses. If you wanted insurance for pain and suffering, you could buy it—but you would pay a stiff premium to get it. Most people would opt for coverage of actual losses and would save a bundle on insurance costs. Almost all auto insurance fraud involves false claims for pain and suffering.

In abusive securities class-action suits known as "strike suits," the English Rule is still needed. It would have a good chance of enactment, these cases do not involve physical suffering or lost wages.



McConnell (l.), Abraham: Will trial lawyers sue them for pocketbook pain and suffering?

David Sculnick Pictures

HOW BRITISH BONDS BEAT BACK BIGGER FRANCE

WASHINGTON REPUBLICANS are wisely avoiding punitive legislation against the use of financial derivatives. Properly employed, derivatives play an extremely helpful role in hedging risks and in more effectively employing capital. Like any instrument, they can be abused and can generate horrific losses—and lurid headlines. Junk bonds suffered a similar fate in the 1980s. Congress overreacted to their misuses, thereby cratering junk bond prices.

New financial instruments can raise eyebrows and sometimes bitter antipathy. Commercial paper 25 years ago was seen in some quarters as a dicey instrument that allowed companies to rely too heavily on short-term debt. The spectacular Penn Central railroad bankruptcy in 1970 seemed to confirm these criticisms. The commercial paper market dried up—but only temporarily. Around two thousand corporate borrowers today have outstanding commercial paper obligations of over \$600 billion.

*See Summer 1993 issue of American Heritage's *Audacity* magazine for a detailed account.

Senators Balk on Derivatives

Republicans: Tighter Regulation Not Needed

—The Washington Post

The most dramatic example of how new forms of financial paper can increase capital efficiency and change the course of history is seen in Britain's dramatic victory over the French in their long struggle for supremacy in the 18th and early 19th centuries.* How did an island with only a fraction of the population and wealth

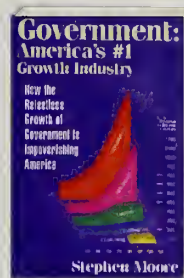
France ultimately humble its mightier foe? Long-term debt. Through pioneering use of a central bank and a fair system of collecting taxes, Britain developed the capital markets that enabled its government to issue bonds. Skeptics regarded the instruments—and the people who issued them—with fear and contempt. But Britain was able to borrow money at almost half the cost that France could and to incur indebtedness (as a proportion of the economy) far greater than Paris could. Thus Britain could more than match the French navy, raise an army of its own and lavishly subsidize other armies, eventually destroying Napoleon.

LASOING THE LEVIATHAN

Government: America's #1 Growth Industry—by Stephen Moore (Institute for Policy Innovation, \$9.95). Thorough but concise, easy-to-read overview of just how big and burdensome American government has become. Rich with enlightening graphs and tables, this wee volume documents the growing destructiveness of our fiscal and regulatory policies. Author Moore is one of the nation's foremost experts on state and local government finance. Unlike other worriers of big spending and endless rule making, Moore is no mindless balance-the-budget-even-if-it-means-raising-taxes fanatic. In fact, he shows how willfully wrong are the Democratic raps against Reagan's income tax rate cuts, which triggered our long-est peacetime boom and doubled Federal revenues. How

to fight back the encroaching government monster? In starters, he advocates six reforms: replacing the current progressive income tax with a flat tax on national sales tax; term limits; a balanced budget amendment/spending limit amendment; renewing respect for property rights; abolishing several useless Federal departments; and "redefining welfare as we know it."

Excerpt: What was the fastest growing age in the Federal budget during the 1980s? Not the Pentagon. It was the U.S. Department of Agriculture. Farm programs take come from middle-income consumers and go to America's wealthiest farmers. More than 85% of subsidies go to farmers with a net worth of nearly half a million dollars.





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Other Comments

Your Tax Dollars at Work

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—National Review

Justice for All

OUR LEGAL SYSTEM contains insufficient incentives to reward settlements and insufficient penalties for litigating to the hilt disputes that should be able to be worked out. More and more lawyers have sought to maximize their fees at the expense of their clients' best interests.

The McConnell-Abraham Lawsuit Reform Act of 1995 empowers clients in personal injury cases by creating incentives for potential plaintiffs and defendants to get together and settle meritorious cases. It reduces lawyers' incentives to discourage settlements by barring them from charging contingent fees in cases where recovery is all but certain. And it creates penalties for frivolous litigation.

—SENATOR SPENCE ABRAHAM, (R-Mich.)

Put the Brakes On

FROM 1987 through 1993, the price of auto insurance rose at a rate almost twice that of inflation, and it is still

climbing. Accident victims pad claims so they can file suit and be rewarded with fat settlements way out of proportion to their injuries.

No-fault insurance plans have failed because lawyer lobbies have played a key role in inserting "monetary thresholds" into the law, allowing lawsuits for pain and suffering after a victim's medical expenses reach a certain amount. This guarantees that bogus victims will inflate claims above the threshold so they can file suit.

When Massachusetts raised its threshold to \$2,000, the median number of doctor visits per claimed injury rose from 13 to 30. When the threshold rose to \$7,000 in Hawaii, the number of chiropractor visits increased to 58 times per claimed injury.

—TREVOR ARMBRISTER, *Reader's Digest*

Signs of Beauty

I HAD THE great good fortune of arriving in Las Vegas at dawn in an airplane. I rented a car and started driving and I saw an extraordinary thing: the horizon, the skyline, was not made of trees and it was not made of buildings. It was all signs. I found out, when I went around to talk to sign companies, that they were putting 10-12-15-story signs on the front of one-story casinos. They had to reinforce the fronts of these buildings so they wouldn't be ripped off by the weight. It was the only architecturally unified city I ever saw in my

life other than Versailles, and the unit was created by the signs. Here was form of sculpture, absolutely monumental, and it created an environment.

—TOM WOLFE, in the foreword to *Let There Be Neon*, by Rudi Stern

We can hold all the hearings we want, but we will never eliminate risks in a capitalist society.

—SENATOR PHIL GRAMM (R-Tex.), speaking on derivatives at a public hearing of the Senate Banking Committee, *Washington Post*

Rx for Success

MEDISAVE ACCOUNTS have been in existence in Singapore since 1981. They are the principal form of health insurance in [the] country. The program is a general application of the concept of the medical IRA.

Each individual is expected to pay for his or her own way, and the program has been highly successful. The Singapore welfare state has steadily shrunk over the past two decades and is now largely devoted to helping the low-income elderly, who participate in the program for only a few years. As the program has matured and the savings requirements increased, only among older workers are there many who have failed to accumulate substantial savings. About 70% of middle-aged workers have savings of more than \$17,000.

—JOHN C. GOODMAN and GERALD L. MUSGRAVE, National Center for Policy Analysis

Learning by Example

ADDRESSING A CONVENTION of teachers in Washington, D.C., George Meany, president of the AFL-CIO, posed a disturbing question:

"Doesn't it make you a bit uneasy that some of the colleges that are teaching our kids how to make money are going broke?"

—HENRY D. SPALDING, *Jays of Irish Humor*



"As the U.S. economy levels off at cruising altitude, major European recoveries are taking off."

—Money Magazine

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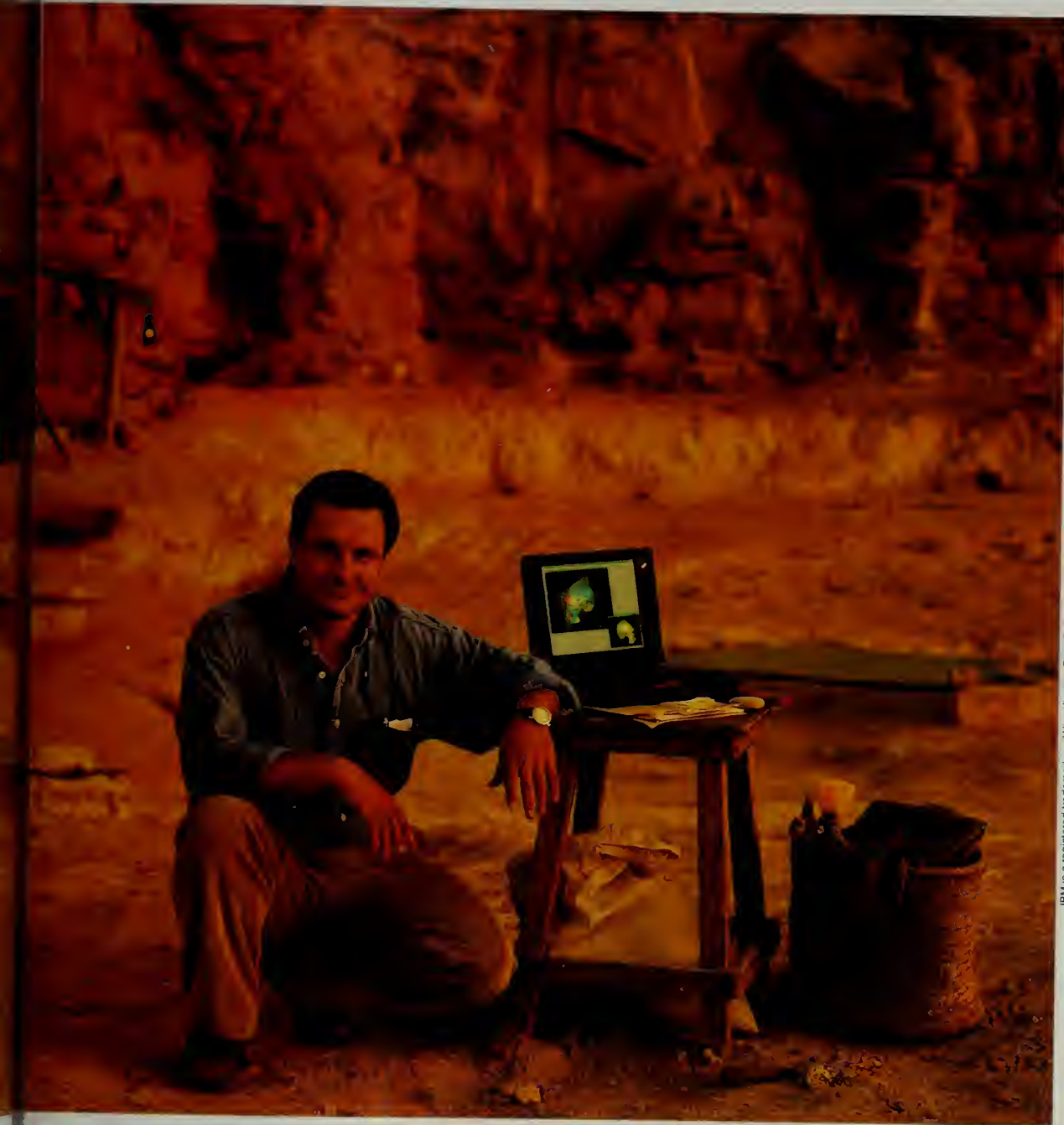
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Casablanca, Morocco



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Commentary

events at home and abroad

Caspar W. Weinberger, *Chairman*



THE "NEW" EUROPE—SOVEREIGNTY, PROTECTIONISM, POLITICS

CENT FORAYS to the United Kingdom and Switzerland have revealed deep fissures in Europe. What began in the 1950s as an agreement for a common market has now turned into a fierce fight between those who want to maintain the sovereignty of Europe's ancient nation states and those who want to create a new European entity that has its own common foreign, defense and economic policies, leaving virtually no decision making of importance to individual member nations.

The man most responsible for this debilitating dispute and for the failure to establish even a single common market is French Socialist Jacques Delors. As president of the European Commission, Delors did everything he could to undermine the concept of the common market by pushing his own goal, through the Maastricht Treaty, of creating a new, single sovereignty.

At the World Economic Forum in Davos, Switzerland, Jacques Santer, the new president of the European Commission, made two points. His first (and welcome) point was to reject the protectionism that has always infected the European Community. But his second point was to report, with regret, that 15 members of the European Union (EU) have been unable to form and carry out common foreign and security policies, thus signaling his intention to continue Delors' mission. The trouble is that a great many people in these 15 countries do not want this.

France, in 1992, was a percentage point away from rejecting the Maastricht Treaty. In 1993 the British government voted against a referendum and forced the treaty through Parliament. The prime minister has since had to make strenuous use of the party whip to keep reluctant Conservatives with him, which brings us to today's problems.

Until recently a majority of Prime Minister John Major's cabinet seemed to support a stronger European Union than any Tories wanted. Indeed, the prime minister revoked parliamentary privileges of eight M.P.s as punishment for not supporting his European policy, thus weakening his already perilously narrow margin in Parliament.

This, along with Mr. Santer's Davos speech and his ear-

lier one to the European Parliament demanding far stronger EU integration, has caused a sea change in the Tory cabinet. What was seen as majority support for Santer's positions has now melted away. Many members have joined the Euroskeptics. The cabinet has now agreed that Britain will use its veto to protect its existing veto rights and to prevent any extension of power to the European Parliament. In Davos, Britain's defense secretary, Malcolm Rifkind, previously considered a strong pro-European, stated his government's new position in response to Mr. Santer's pleas.

All this maneuvering is in preparation for next year's intergovernmental conference, Maastricht II, but is also a prelude to the U.K.'s next general election. Recent polls have shown that the Conservative government is supported by only a small portion of the British people and that only 27% of the electorate wants closer ties with Europe. As the Labor opposition firmly supports European integration, the Conservatives are hoping that their rejection of this will help unify them for the election.

In Germany, despite Chancellor Helmut Kohl's ardent support for an even stronger European Union, polls show similar opposition to such inte-

gration. This is another case of a government's moving far ahead of its constituents' desires.

If these discrepancies stop the creation of this new Europe, it could be good news for the U.S. and the Pacific nations because protectionism has been on the rise in EU member states. For example, France is insisting that television programs shown in Europe must contain 51% "European content"—whatever that means. (Does a film with an Italian star, made in Hollywood, have "European content"?)

These protectionist tendencies are seen more clearly in one of the main arguments of the U.K.'s pro-Europeans: If the U.K. does not move strongly into a united Europe, the U.K. will be left out and lose hundreds of thousands of manufacturing jobs producing goods sold in Europe. Does this mean that if the U.K. does not go along fully with the European integrationists, a protectionist Europe will stop buying English goods? It sounds like it, despite Mr. Santer's attempts to reassure free traders at Davos. ■



Mssrs. Santer and Delors: Slight variations but the same theme.

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They're killing the environmental law monster

THE WHITE HOUSE, catering to its friends in the labor unions, will test constitutional propriety and issue an executive order banning companies with Federal contracts from permanently replacing strikers. President Clinton is also promising to veto two proposed Republican labor reforms. One is repeal of the Davis-Bacon Act, which forces employers on federal construction contracts to pay union-set wages; the other is a law that would legalize employee/management quality and productivity committees.

Environmental activists are hoping for the same treatment from the Clintonites over the Republican proposal to introduce what's called risk assessment into environmental law, forcing regulators to make the cost of regulation an equal consideration with the desire for clean air, clean water and so on. In other words, is some tiny social gain worth any amount of financial pain?

And, boy, there's plenty of pain. Complying with the present raft of environmental laws, such as the Clean Water Act, costs Americans around \$140 billion a year, roughly equal to Medicare. This compliance cost is expected to rise to \$200 billion by the end of the decade.

A recent Census Bureau study found that each dollar spent by steel mills, oil refineries and paper mills in complying with environmental law reduced their output by \$3 to \$4. This has reduced total U.S. economic output by 2.6%

from what it would otherwise have been.

Environmental law has become a legislative monster, says Hugh Spitzer, who has drafted a bill on risk assessment for Representative Dick Zimmer (R-N.J.), one of many rival bills on the subject now being pored over on Capitol Hill. "Example? The Clean Air Act requires an adequate margin of safety; in theory this means having to protect an angina patient jogging in downtown Los Angeles at noon, the worst time for carbon monoxide. It's ridiculous," says Spitzer.

The Republicans are beginning to horse-trade over the final bill. One fight concerns the financial threshold at which risk assessment is required. Set too low, at \$25 million of annual cost, say, and this reform itself risks becoming a high-cost bureaucratic nightmare. Another concern is that if it is written too broadly, it might, for instance, threaten the use of child-proof packaging on medicines.

Odd as it may sound, many extreme enviro-freaks want the Republicans to go overboard on this reform. That will make it easier to persuade the White House to veto the change. But there is compromise in the air. "What's at risk here is a true revolution in the way we regulate ourselves," says Jerry Jasinoski, president of the National Association of Manufacturers, who heads a 1,000-firm coalition that is pushing risk assessment.

The Fed hasn't finished yet

TOP FEDERAL RESERVE PEOPLE are on the stump peddling a soft line that the Fed is not about to raise interest rates an eighth time. Maybe, but be forewarned: It is increasingly likely that the Fed will act at least once more on rates.

For a start, note that the leading member of the advance guard in favor of no more rate increases is Fed Vice Chairman Alan Blinder, a Clinton appointee. It's in his side's interest to preempt the Fed from tightening so much that a recession is inevitable.

Second, note that it is impossible to guess right now just which way the economy will move in the coming months. Despite a slowing housing market under the impact of seven Fed rate hikes since February 1994, the economy remains buoyant.

The biggest imponderable is the weakness of the dollar, which is giving the Fed fits. The greenback seems set to go further in the tank (see p. 184).

Adding to the pressure on the dollar, the German Bundesbank is set to raise its interest

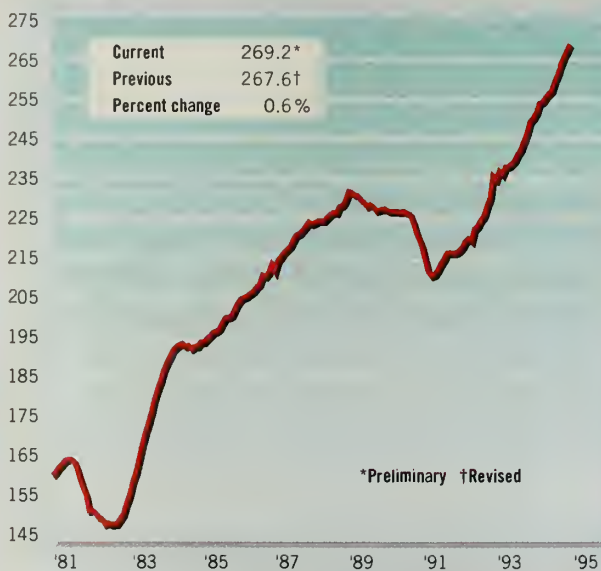
rates in the second quarter of this year. That will add to the pressure on European countries with weak currencies, which are many: France, Belgium, Italy and Sweden. Canada's dollar is also weak.

Trouble with any one of these countries' currency would roil the foreign exchange markets, which would spill over to further weaken the dollar. Given that the U.S. has more or less spent dry its exchange stabilization monies to bail out the Mexican peso, the Fed has but one defense, higher rates.

Even without some dollar upset, Fed insiders expect at least one more rate increase in our future. Timing? In three or four months. If the economy continues to grow at its present 4% pace, expect a 75-basis-point increase. If the economy slows a bit, the increase may be 50 basis points.

The oddity is that inflation fears now have little to do with what's happening to rates. Everybody expects consumer prices to be rising by 3.5% to 4% (up from today's 2.8%) by year-end, and nobody bothers much.

The Forbes Index (1967=100)



How much harder is the Federal Reserve likely to squeeze the economy? Joseph Liro, chief economist at S.G. Warburg & Co., expects falling unemployment and rising capacity utilization will elicit more Fed tightening through summer. Nevertheless, Liro thinks that the federal funds rate—what banks charge one another for overnight loans—won't increase more than a percentage point from its current rate of 6% over the next six months. Liro anticipates a 3.5% inflation rate for 1995; over the 12 months through January the cost of living index rose 2.8%.

Other key rates

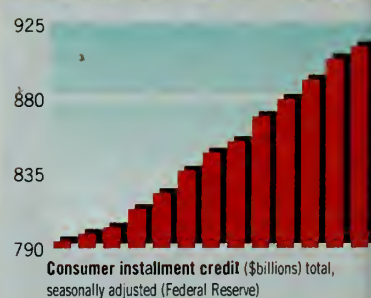
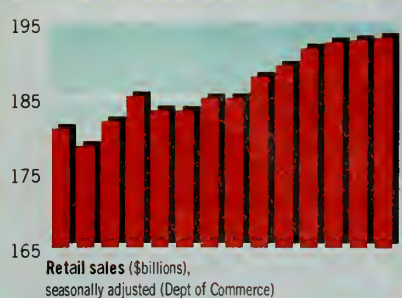
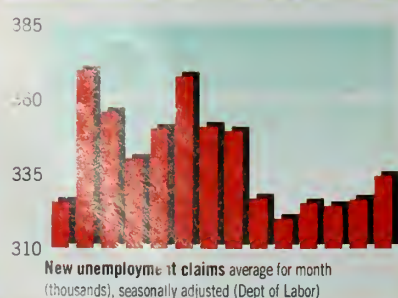
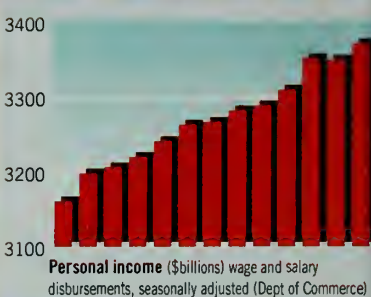
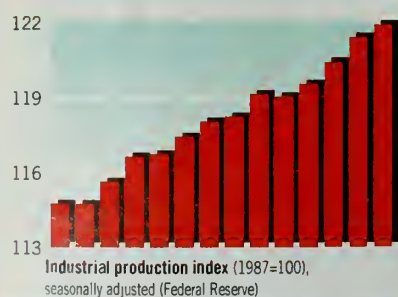
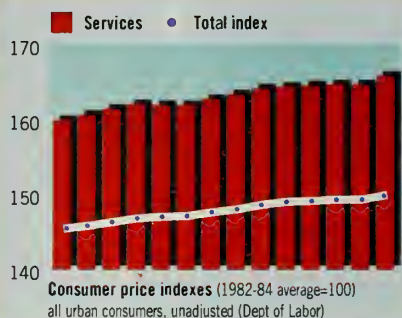
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1994 ¹	Ward's Automotive	-3.4%
Index of leading indicators Dec vs Nov	Dept of Commerce	0.1%
Trade balance ² 12 months ended Dec 1994	Dept of Commerce	-\$108 b
All-commodity producer price index ³ Jan vs Dec	Dept of Labor	0.7%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	4.5%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	1.0%

¹ U.S.-based manufacturers, excludes imports, as of 1/31/95. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



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"Did the weatherman say anything about solar winds tonight?"

It wasn't a rainstorm that knocked out the power in Quebec, Canada, and disrupted service in seven states in March 1989. It was the sun.

In addition to light and heat, the sun radiates an electrically charged gas called plasma, or solar wind. When the solar wind penetrates the Earth's magnetic field, it creates spectacular light shows known as the Northern and Southern Lights.

It can also create havoc.

Solar wind has disrupted radio communications, navigation systems and, as it did in March 1989, caused a massive power blackout.

To help predict these potentially dangerous "space weather" conditions, NASA launched the Wind satellite on November 1, 1994. The first of two spacecraft in NASA's Global Geospace Science program, and part of an international satellite network, Wind will study the mass, momentum and energy of the solar wind for the next three years.

The data it sends back will provide the early warning needed to minimize solar wind damage to radar, microelectronics and the power supplies of entire cities.

As the company that designed and built Wind, which already is providing useful data to scientists, Martin Marietta is proud to be a part of the extraordinary NASA and Goddard Space Flight Center team.

What they learn in space today will safeguard the quality of life on Earth tomorrow.

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The regional Bell companies are right now in a happy state, with few of the disadvantages of regulation but many of the advantages.

Lord, make me competitive—but not just yet

By Gary Samuels

LONG LIVE THE FREE MARKET! Hail the information highway!

With these battle cries the local Bell telephone companies have conducted a campaign to loosen the rate regulation that they have been subjected to for most of this century. And they are scoring, or are about to score, an impressive number of victories—in state utility commissions, in state legislatures, at the Federal Communications Commission and, quite possibly this year, in Congress.

The consequences of this campaign for pricing freedom are twofold. One is that local telephone utilities have become immensely profitable, generating a combined \$27 billion last year in cash flow (in the sense of depreciation plus net income before one-time writeoffs). The chart opposite illustrates the growth in their efficiency over the last 11 years—since the Baby Bells were created in the breakup of the old AT&T.

The other consequence is that the local telephone industry has lately acquired a lot of enemies.

The complainers aren't merely some collection of Naderites. They are giant corporations with million-dollar phone bills, long distance companies unhappy sharing so much of their revenue with local phone utilities, and cable television outfits and

other would be competitors arguing that, in much of the country, the entrenched Bell operating companies are thwarting competition.

Washington lawyer Brian Moir is chief lobbyist for the International Communications Association, a telecommunications user-group whose members include General Motors, General Electric and Goldman, Sachs. Moir claims that the Bells are set to collect, over the next five years, \$30 billion to \$40 billion more than they

are entitled to as regulated utilities.

How can that be? Aren't local phone companies regulated monopolies? The answer is that local phone service is ceasing to be a monopoly and is also ceasing to be closely regulated on price. Right now, however, the business is in a nebulous state, which many phone companies have most of the freedom of unregulated competitive enterprises but little of the competition. Meanwhile, the Bells have the best of both worlds.

Competition is coming, but slowly. In the past month Nynex signed interconnection deals that let MFS Communications and Cablevision Systems plug into its switches and thereby share a piece of the lucrative New York market. Prodded by regulators, Ameritech announced its plan to sign a similar deal with MFS in Chicago. But these are the only such arrangements in the country. Local switched phone competition—meaning the ability to let customers interconnect phone calls—is still not fully permitted in 37 states.

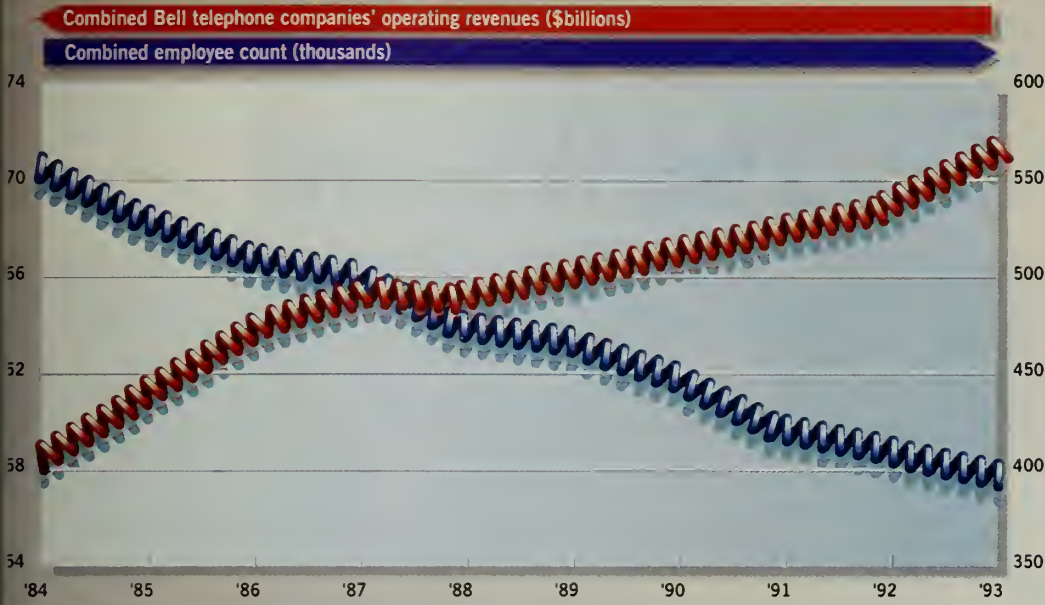
Even in the 13 states where competition is officially welcomed, challengers have an uphill battle. In Seattle, tiny Electric Lightwave Inc. went to court to win the right to offer switched phone service to its business customers. Nevertheless, incumbents



Chris Usher

Phone customers say they are being overcharged. How much? As much as \$40 billion over the next five years, claims lobbyist Brian Moir.

The regional Bells get more efficient



Source: United States Telephone Association

The Bells have cut 160,000 jobs since they were formed in 1984. Equipment costs have fallen. Revenues have climbed, thanks to the popularity of long distance and wireless calling, faxes and on-line data services.

US West is still in a position to exact a stiff fee from competitors like ELI for connecting their lines to its own. Regulators may not sort out the matter until the end of this year.

The FCC regulates the Bells based on their long distance access charges. When it ordered the Bells to permit competitors to interconnect their equipment on Bell property, Southwestern Bell came up with a tariff for constructing space in its office for competitors to use.

"They were charging us more to build out a 10-foot-by-10-foot cage than the average price of a four-bedroom home in their service territory," says Royce Holland, president of MFS. "And we didn't even get indoor plumbing."

The Bells, in short, are doing what comes natural: making life tough for would-be competitors.

If you don't see telephone users marching on state capitols over rates, the usual "consumer advocate" groups are mostly silent on this issue, for a simple reason: Phone rates aren't going up. Thanks to the same electronic technology that makes computers more of a bargain every year, telephone equipment gets ever cheaper. Labor productivity is going up as well; since the 1984 breakup of the old American Telephone & Tele-

graph, the regional Bell companies have trimmed their combined phone company payrolls by 162,000, or 29% of their work force.

What's happening, Moir claims, is that, instead of cutting rates as expenses fall, the Bells tend to put the savings in their corporate pockets. In a few states—notably Illinois and New York—they are under orders from utility rate regulators to reduce rates and open their networks to competition. But by and large the local telephone companies don't have any obligation to do either as their costs decline.

Lee Selwyn is president of Economics & Technology Inc., a Cambridge, Mass. firm that testifies on behalf of regulators, corporate phone users and long distance and cable companies at regulatory hearings around the country. Selwyn says profits at regional telephone companies are compounding as costs drop while rates don't. To make matters worse, unit traffic is up, thanks to the boom in faxes, cellular phones and on-line computer services.

In 11 states phone utilities are free to pocket most or all of their cost savings from better electronics and smaller work forces. They get that freedom by persuading the authorities to adopt some variation on the

"price cap" model of regulation. This approach, first applied to AT&T in 1989 to regulate the long distance business, allows a telephone company a lot of leeway in modifying individual rates for competitive services on its own, provided the rates do not move out of a specified range for captive customers.

To sell the states on price cap regulation, the Bells say they need an "incentive" to earn extra profits, since those profits will be plowed back into modernizing the system—into giving rate payers the information superhighway that Vice President Gore chatters about.

In New Jersey in 1992, Bell Atlantic convinced the state's legislature and utility board to let it continue to earn a high return so that it could afford to crisscross the Garden State with fiber-optic cable.

The estimated cost of this construction project, dubbed "Opportunity New Jersey": \$1.5 billion on top of what Bell Atlantic had planned to spend all along—virtually all to come from rate payers.

This rate-payer-funded fiber is a way for Bell Atlantic to invade the cable business, splutters Patrick McColl, head of the New Jersey Cable Television Association.

How did Bell Atlantic pull off this

coup? In 1992 it persuaded Edward (The Coach) Salmon, a former high school basketball coach and state assemblyman who was appointed public utilities commissioner by former governor Jim Florio, that the plan would help the then economically depressed state.

Salmon carried around in his pocket two pieces of cable, one fiber-optic and one copper, to show when testifying before the New Jersey legislature and elsewhere in favor of the plan. Impressed, last year Southwestern Bell flew Salmon to a "Connect Missouri" rally in Jefferson City to tell the locals about fiber. Southwestern was fighting rate reductions and had offered to use the money to wire the state with fiber.

Kenneth McClure, vice chairman of the Missouri Public Service Commission, thought the company should raise the money privately for upgrading its network. But Southwestern took its message to the public with mass-market media ads and to the state legislature with lobbyists. McClure backed down, agreeing to a plan in which Southwestern Bell can freeze rates until 1999 in return for investing \$275 million a year.

The Bell companies, of course, dismiss most of this criticism as self-serving. "What difference does it make if someone has a declining cost structure and if they're earning X instead of Y?" asks Roy Neel, president of the Bell-dominated U.S. Telephone Association. Fans of price cuts want technology, he says, but they're not willing to pay for it. As for AT&T, MCI and Sprint, which are pressing the FCC to sharply lower the access rates they pay to get their calls completed, Neel says: "They'd have a better case if there were any evidence they'd passed along the savings from the past four years of price caps to their customers—\$3.5 billion."

A decade or so from now, when the great telephone war is over, the U.S. will have a far more competitive telephone network with a wealth of new fiber and cellular connections. Until then, don't expect the former regional monopolies to give up even an inch of turf without a battle. Competition may be the American way, but that doesn't mean business people have to love it.

At the end of 1991 Citicorp had a total market capitalization of \$3 billion; last year it earned that much. This is one of the most spectacular turnarounds in corporate history.

The Wizard of Citi

By Matthew Schiffrin

THE SEVEN-STROKE golf handicap John Reed sported when he became chairman of Citicorp in 1984 has more than doubled, the boyish face is lined now and his hair is peppered with gray. After 29 years, his marriage to his wife, Sally, broke up in 1993. But Reed has more than survived these harrowing years; he has come through with colors flying. In 1994 Citi earned \$3.4 billion, \$6.29 per share, up 52% from 1993's record earnings and a nearly \$4 billion swing from the \$457 million net loss it suffered in 1991. This year looks like another great year for the nation's largest bank holding company.

Citicorp's return on assets, at 1.29%, ranks it way above most other so-called money center banks like J.P. Morgan (0.70%) and Chemical (0.78%), and its return on equity, at

21%, is on par with the best-managed regional banks like Norwest (21%) and Wells Fargo (21%). Citi's Tier 1 capital ratio—a vital measure of financial strength for banks—is now 7.1% of risk-adjusted assets, up from 3.1% in 1990. Citi's loan-loss reserves, \$5.2 billion, now cover 80% of nonperforming assets. At a recent price of \$42½ a share, its stock has appreciated 400% since 1991.

To give all the credit to the 56-year-old John Reed for this remarkable turnaround would be to ignore the realities of running a company worth \$250 billion in assets and 82,600 employees. Still, he was where the buck stopped. And he richly deserves kudos for what has happened.

When John Reed first arrived at Citicorp in 1965, he was a fresh-faced 26-year-old graduate of MIT's Sloan School of Management. Because he had been raised in Argentina and Brazil, he was placed in Citicorp's overseas planning group, where he rose rapidly through the organization with unorthodox ideas about expanding consumer banking operations overseas. Consumer credit for Argentinians? For Indians? Why not?

In 1974 then Citicorp chairman Walter Wriston, asked Reed to start the bank's consumer business. Reed's recommendation was to expand domestically and internationally by taking advantage of international lending relationships Citibank had maintained since the early 1900s. It was already on the scene in so many countries. If it could reach the business people there, why not the consum-

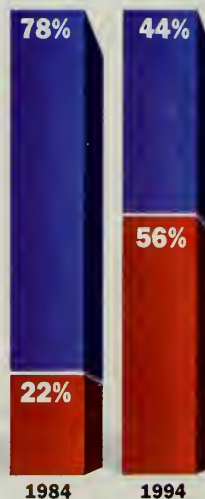
Banking on the consumer

Percentage of core business

Corporate banking

Consumer banking

As Citi chases the same customers around the world as Disney and Coke, its once dominant corporate business wanes in importance.



Source: Citicorp

Citibank knew the territories and it knew the technology of consumer lending.

When Wriston retired in 1984, Reed's vision of a "global consumer bank" helped the young man beat out rivals for the top job.

Coming up through the ranks, Reed was known as a hard-driving, numbers-oriented and often cold

too big and complicated for any one person to run.

Maybe his hand sometimes rested too lightly on the tiller. His hand-picked managers opened Citi's purse strings for some flamboyant characters who later turned out to be deadbeats—Donald Trump, Robert Campeau, Olympia & York.

By the end of 1990 Citicorp's Tier

to Citi's long-suffering shareholders.

At a board meeting at the Camino Real Hotel in Mexico City in March 1991, Reed asked his outside directors for a vote of confidence in his plans to fix the bank's problems. He got it, but his job was still not secure. The media were full of predictions of his imminent downfall.

All around the corporate landscape,

Citicorp
Chief Executive
John Reed

**A job well done,
but shareholders
hope that his
handicap doesn't
improve much.**



manager. But after he took the top job in 1984, Reed moved into the glass office on the second floor of the bank's New York Park Avenue headquarters. By then he had dropped his autocratic ways in favor of openness and collegiality. He couldn't run his huge outfit the way he could run a division of it. So be it. He'd adapt to his new role as leader who sets a tone rather than barking orders.

In 1987 Reed told *FORBES* that his running Citicorp was similar to that of the Wizard of Oz. He did not, of course, mean that his job was to amuse people. Rather that, like the wizard, he would have to seem to be in charge when in fact the outfit was

its capital ratio had fallen to 3.93% (by the calculation method then in use), barely above the 3.625% regulatory requirement at the time. Total reserves amounted to \$4.5 billion—only about 30% of nonperforming assets. In 1991 Citicorp was hemorrhaging red ink and short-sellers were swarming around its battered stock.

Heavy-handed pressure from federal regulators forced Reed to eliminate Citi's common dividend and to seek capital from outsiders. On a limited-risk infusion of nearly \$800 million in fresh capital into Citi, Saudi Arabian Prince Alwaleed Bin Talal made himself a profit of \$1 billion or so—at the expense of serious dilution

blue-chip chief executives were either walking the plank—like John Gutfreund of Salomon—or about to—like Kay Whitmore of Eastman Kodak, James Robinson of American Express, Robert Stempel of General Motors and John Akers of IBM.

In October of 1992 Reed fired Richard Braddock, the popular consumer banking whiz he had groomed and elevated to the job of president. It was and is generally believed that Reed threw Braddock, now a partner at Clayton, Dubilier & Rice, to the wolves to slow their pursuit.

Meanwhile, however, Citibank's vaunted consumer lending businesses continued to spin out money. In mid-

Citi's comeback

Bank	Assets (\$bil)	Return on assets	Two-year price change*
Citicorp	\$250	1.29%	86.0%
BankAmerica	215	1.08	-15.1
Chemical	171	0.78	-7.1
NationsBank	170	1.02	-12.2
JP Morgan	155	0.70	-14.6
Chase Manhattan	114	1.01	20.6
Bankers Trust	97	0.59	-19.2
Banc One	89	1.15	-34.3
First Union	77	1.27	-5.1
KeyCorp	67	1.36	-22.0

*From 12/31/92 to 12/31/94. Sources: SNL Securities; UBS Securities.

1993 Reed hired renowned hatchetman Christopher Steffen for \$1.3 million in cash compensation, plus millions in stock options. Since 1990 nearly \$1.5 billion has been cut out of Citicorp's expenses and its job roster has been reduced by 14,000 employees. Layers of management were eliminated. Wriston's decentralized system of creative but warring fiefdoms evolved into a group of 16 business heads sharing information and reporting monthly to a management committee of five vice chairmen and Reed. That move did two things: It centralized more power at the top, but reduced Reed's role from the emperor that Wriston had been to more of a committee chairman.

Then the Federal Reserve started bringing interest rates down, the real estate panic ended, and the banks were saved. Reed gets no credit for that. What he does deserve credit for is what he didn't do. Above all, he didn't panic and throw good businesses overboard.

Other banks hastily eliminated major businesses when they ran into trouble. BankAmerica and Chase Manhattan cut back overseas. Continental exited the retail banking business just as wholesale banking slumped.

Reed stuck to his vision for Citicorp's future as a world leader in consumer finance and actually expanded many of its core operations. He figured that once the bank got past its troubled loans, profits from these fast-growing international franchises would make their way to the bottom line.

It happened as he had hoped. In 1993, 75% of the bank's earnings came from outside North America; last year, even with North America improving, overseas earnings accounted for 58% of Citi's \$3.2 billion core business earnings. Over \$1.4 billion in 1994 profit came from operations in emerging markets like Thailand, Taiwan and India.

"Historically our origins were that of a big money center bank," says

What Reed does deserve credit for is what he didn't do. Above all, he didn't panic and throw good businesses overboard.

Reed. "That isn't an accurate description of us today. There is an emerging business opportunity in the world that brand names like Levi's, Sony and Marlboro are selling into. We are in that market, but our profit per customer is significantly higher for us than selling Pepsi."

Today Citicorp has over 3,300 offices in 94 countries around the world, ranging from Hungary to Chile, from Kenya to Vietnam. Over half of Citicorp's 82,600 employees live outside the U.S., and today Citicorp is the only truly global consumer and corporate bank in the world.

Reed and Vice Chairman Pei-yuan Chia, head of the global consumer business, are betting that they can

A few years ago Reed's job was in jeopardy and bank regulators were breathing down Citicorp's neck. Now it is leading the pack again.

promote an international brand identity for Citicorp. Why not "Citi" alongside Coca-Cola and Disney? "Our intention is to build the world's most respected financial services brand name," Pei-yuan Chia said in a speech last fall.

Walk into a newly modernized Citibank branch in Jakarta, Frankfurt or Flushing, N.Y. and you'll see Chia's plan of cookie-cutter retail outlets, as alike and as familiar as a McDonald's. Borrowing from Wal-Mart, Citi's new branches have greeters at the door to welcome customers and direct them to the appropriate place.

This international exposure—where Reed is very much at home—is what sets Citibank apart from other banks. It gives Citibank a great edge over domestic banks that are forced to slug it out in the home market over commercial loans and credit cards, where earnings have been growing at less than 10% annually.

Mexico? It is estimated to represent less than 2% of Citicorp's income, and Citi's cross-border exposure is only about \$4.3 billion, although Reed admits that Mexico's problems will hurt growth elsewhere. "I don't believe emerging markets will grow at 15% in 1995," he says flatly. But long after the Mexican crisis passes, Citi's powerful presence in the developing world will stand the bank in good stead as the middle class there grows and prospers.

The turnaround is over, and Reed has time to reflect on the reasons for his survival. Says he: "Part of it was luck and the other part was working hard. I was fortunate in that I got out ahead of the problems. Some of my friends didn't."

Now Citi must move forward. Despite the powerful rally in its stock price, Citi shareholders have fared only about half as well as the S&P 500 in the decade since Reed took over. That remains something of a blemish on his record. Moreover, some 2,000 key managers have a lot riding on the stock. The top 100—Reed among them—have options that don't become fully vested until Citicorp's stock hits \$60 per share.

Look for higher dividends and stock repurchases—both easily affordable out of Citi's vast and swelling flow of earnings.

Mexico's troubles notwithstanding, the capitalist evolution continues to sweep Latin America. Now it's Bolivia's turn.

Will Bolivians read Forbes?

by Christopher Palmeri

REMOTE BOLIVIA, a nation of 7 million high up in the Andes, has finally turned to free enterprise to rescue itself from poverty and economic backwardness. Bolivia's per capita gross domestic product is only a third that of neighbors Brazil and Chile. Many of Bolivia's poor are Indians who cannot read or speak Spanish. Lacking other means of livelihood and with its once rich tin mines in terminal decline, it is no surprise that Bolivia is the world's third-largest cocaine producer.

Bolivia's president, Gonzalo Sanchez de Lozada, is a mining entrepreneur who was raised in the U.S. and educated in philosophy at the University of Chicago. He wants badly to bring his native land into the modern world. "Nations that cannot export goods and services," he says, "export people and drugs."

As his biggest step in integrating his economy with that of the outside world, Sanchez de Lozada hopes to sell pieces of six state-owned companies. On the block: airline, phone, oil, railroad and tin smelting operations.

As Bolivia's minister of planning in the mid-1980s, Sanchez de Lozada joined with Harvard economist Jeffrey Sachs in bringing economic shock therapy to Latin America, slashing taxes, tariffs, regulations and subsidies. The program cut inflation from 4,000% per year in 1985 to the single digits, where it remains today.

Sanchez de Lozada believes his country is now ready for the next step on the road to capitalism. He thinks he can raise as much as \$2 billion through privatization—a lot of money in a nation whose gross domestic

Reuters/Bettmann



Bolivian President Gonzalo Sanchez de Lozada
Politics with an American accent.

product is \$7 billion. But money isn't the main object. The president wants to bring technological and managerial know-how and outside capital to his landlocked and primitive economy. The Bolivian state oil company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), has already joined with foreign firms like Enron, Tenneco, British Gas and Australia's Broken Hill Proprietary to construct a natural gas pipeline from Bolivia to Brazil. The combined cost of this project, which includes new power plants and development of Bolivia's large gas reserves, is expected to top \$5 billion. On its own, Bolivia could not raise this kind of money.

The oil company itself is now on the privatization list. Winning bidders in this and other asset sales will receive 50% of the stock and complete management control of the privatized firms. In return, they will agree to invest a predetermined amount in modernizing the operations.

Does this mean the foreign investors will have the Bolivian state as a partner? Happily, no. The Bolivian half of the privatized company's stock will be handed over to privately run pension plans for the benefit of the 3.5 million adult Bolivians. Two or three years down the road, if all goes according to Sanchez de Lozada's plan, the pension funds will create a public market for the privatized firms, either by giving some of the shares directly to the Bolivian people or by selling shares to the public.

The Sanchez de Lozada program is based on the economic reform that has been so successful in Chile. In Chile social security has been privatized, with the people allowed to invest their pension money in the securities of productive enterprises. Interviewed at the Summit of the Americas in December, Sanchez de Lozada put it this way: "We are not selling assets so much as inviting people to become partners. That's why we call it capitalization, not privatization."

In sharp contrast to Mexico's experience with flighty portfolio investors, Bolivia is looking for businesses, not institutional or private investors. "This is not fly-by-night capital," notes Bolivian Energy Secretary Carlos Miranda Pacheco. "There is a commitment on both sides."

First on the block will be the power-generating assets of Empresa Nacional de Electricidad (ENDE), the state electric company. Last year 31 foreign companies formally expressed interest in bidding for ENDE. The list includes big utilities like Dominion Resources, General Public Utilities and Baltimore Gas & Electric, as well as independent power producers like AES, Destec Energy and Enron.

"This plan will accomplish two important goals," says Mark T. Cox, head of Dominion Resources' international operations. "Adding new capacity, and getting the government out of the businesses."

By adopting the Chilean model, the Bolivian president is seeking to give even the poorest of his people a direct stake in private enterprise. "We want people participating [in the privatization] for political and social reasons," Sanchez de Lozada says. "We want the Bolivian people reading FORBES, not Karl Marx."

By splitting his hotel company in two, Bill Marriott enhanced the value of both halves.

Marriott, meet Marriott

By Rita Koselka

IT MAY BE a bit confusing to investors that there are two hotel companies bearing the Marriott name—Host Marriott Corp. and Marriott International, Inc.—but there is nothing confusing about their respective roles. Host Marriott owns and trades hotel real estate but does not manage hotels. Marriott International manages hotels, but does not own them.

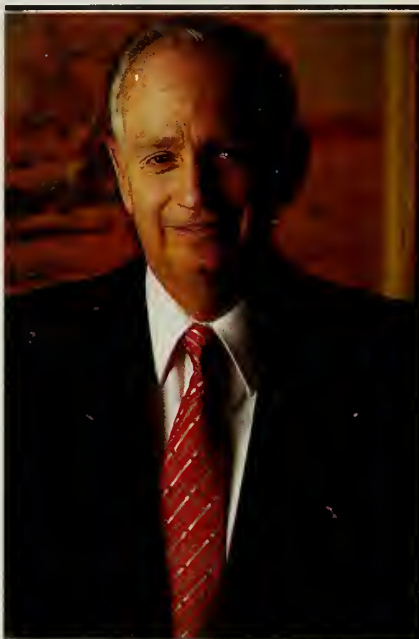
The two companies have two things in common: The family of John Willard (Bill) Marriott Jr. owns the biggest block of stock in each; and most, but not all, of the hotels owned by Host Marriott are managed by Marriott International.

The two companies were split in 1993 following a messy divorce announced in October 1992. "We never wanted to own real estate," explains Bill Marriott, now chairman of Marriott International, "but it was the only way to expand quickly."

Here's what happened: For years Marriott had been building hotels according to its own specifications, then selling them to investors and keeping the management contracts.

The build-sell-and-manage strategy worked beautifully. Marriott's hotel count surged from just 75 in 1980 to 539 in 1989. Bill Marriott added new chains like Residence Inn, a chain of extended-stay hotels, and Courtyard by Marriott, a chain of midprice, limited-service hotels.

Suddenly the rules changed. In 1986 Congress sharply reduced real estate tax shelters. The change caught Marriott in the full flush of a building program and loaded with debt. When two Japanese banks reneged on commitments to buy hotels worth \$700 million from Marriott in 1990, Marri-



Marriott International's J.W. Marriott Jr.
"Success is never final."

ott was stuck with a lot of distressed real estate and debt of \$3.4 billion. "Anything that wasn't started, we didn't start, even if there was a hole in the ground," says Marriott.

Burdened with debt, the company couldn't easily expand. Nor could it reshuffle its encumbered portfolio of properties. It was then (in 1992) that the idea was conceived to break the company in two—an owning company and an operating company.

Hatched by Bill Marriott Jr. and his main financial man, Stephen Bollenbach, the reorganization provided that Host Marriott would own the hotels and take over about two-thirds of the chain's \$2.9 billion in debt. The management contracts would stay

with Marriott International, as would the balance of the debt.

Boy, did the brickbats hit the fan.irate holders of Marriott bonds feared the real estate company would be unable to service its debt. One of Marriott's financial advisers, Merrill Lynch, which had placed many of its bonds, resigned in protest. The company's corporate bonds fell to junk status, their prices tanking 20% to 25%. "It was a tough time," recalls Bill Marriott.

But events have vindicated the decision to split. When the separation was announced in October 1992, the market valued the common shares of the combined company at \$2 billion. Today it values Host Marriott alone at \$1.6 billion and the two combined at \$5.6 billion. In January a U.S. district judge in Baltimore threw out the last remaining lawsuit filed by bondholders against Marriott following the breakup announcement.

With Bill Marriott in charge, the hotel operating company, Marriott International, earned \$200 million (\$1.51 a share) last year—up 24%—on revenues of \$8.4 billion.

Stephen Bollenbach runs Host Marriott, the real estate company. Its earnings before interest, taxes, depreciation and amortization rose 9% last year, to \$376 million, on revenues of \$1.5 billion. Operating cash flow now covers debt service almost twofold. Far from being out of favor on Wall Street, Host Marriott in January raised \$240 million in an oversubscribed equity offering, and in November it negotiated a new \$230 million bank credit line.

The two companies continue to work closely together but have much more flexibility than they had as a single company. Host Marriott now owns 120 hotels, adding 18 last year alone. It manages its portfolio of properties quite aggressively. Prices for limited-service hotels are strong these days, so Bollenbach is selling some limited-service and economy brands and using the proceeds to buy full-service hotels at depressed prices.

In so doing, Bollenbach is playing the real estate cycle as he sees it. Because of past overbuilding, the value of full-service hotels had crashed. But Bollenbach is convinced that the market will swing back in favor of the

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more luxurious type of hotel.

Thus, last December he bought seven full-service hotels from the Equitable Life Assurance Society for \$149 million, about half their replacement cost. These included the Springfield, Mo. Radisson and the Singer Island, Fla. Holiday Inn Sunspree. In February he sold 21 Courtyard hotels to Health & Retirement Properties Trust for \$179 million—at close to replacement cost, he says.

With this trading of properties, about 45% of Host Marriott's hotel portfolio is now composed of limited-service hotels, down from 60% in 1993. Within the next five years Bollenbach would like to own only full-service hotels. "We have two ways to earn money: cash flow from our hotels and capital appreciation in the hotel real estate," he explains. "Right now, cash flow in all the segments is growing at 10% to 15%. We think that in the next three years, cash flow in the limited [service] segment will flatten out. That is why we want to own more full-service hotels." As the value of full-service hotels strengthens, Bollenbach plans to sell them, garnering fat capital gains for Host Marriott.

Meanwhile, back at Marriott International, Bill Marriott has been taking advantage of the strong demand in limited-service hotels in his own way. He's expanding rapidly in this segment but doing so largely by franchising such brands as Fairfield Inn, a



Host Marriott boss, Stephen Bollenbach
His turn to be financially inventive.

lower-price (generally \$43 a night) Marriott chain. A Fairfield Inn, for example, costs only \$3 million or \$4 million to build; staffing is fewer than ten people. The franchisees put up the money and Marriott collects a royalty. "It's as fail-proof as any franchise program can be," says Marriott.

Until mid-1993 all Marriott hotel managers had considerable discretion on discounts. Now Marriott has three price tiers for each local market. "We don't want a dicker sticker," says William Tiefel, president of Marriott Lodging Group. "People don't want

to worry that those in the next room have a better deal."

Marriott International is highly profitable in good part because it charges Host Marriott and other clients management and food service fees equal to 5% or 6% of the revenues of the properties it manages. Those fees are around two percentage points higher than industry norms, says Bollenbach. Is International gouging Host? Is there a conflict of interest here? After all, Bill Marriott sits on Host Marriott's board, and his family owns about 18% of the real estate company's stock and about 20% of Marriott International's. But Bollenbach's stock options, now worth \$15 million, depend on Host's performance. He has incentive to make sure that Marriott International delivers.

Bill Marriott is clearly pleased that Wall Street's distrust of his split-the-company plan has turned into approval. But, good Mormon that he is, he isn't satisfied yet with the results. He recalls his last meeting with his father, company founder J.W. Marriott Sr. "We were having a family picnic at our place in New Hampshire the last day of his life," Marriott remembers. "The last thing he said was, 'We've got to get better corn up here.' To the end he was always trying to make things absolutely perfect.

"This is what our church teaches. You can never reach perfection in this life. . . . Success is never final."

A great school

AS A SCOUT for smart and ambitious financial minds, Bill Marriott is tops. Alumni of Marriott's finance department include Gary Wilson and Alfred Checchi, who bought Northwest Airlines, and the carrier's chief executive, John Dasburg. Another Marriott alum, Lawrence Murphy, is now chief strategy officer at Walt Disney Co. Dan D'Aniello and Stephen

Norris are cofounders of the Carlyle Group, the Washington, D.C.-based investment banking firm. Duncan Cocroft is the chief financial officer of \$2.2 billion (1994 revenues) International Multifoods. Fred Malek, former president of Marriott Hotels, went into Republican politics, running George Bush's campaign in 1992.

"There was this incredible vitality and intellectual energy," recalls John Dasburg. "Bill Marriott set up an environment where you checked your title at the door and you

knew you could be creative and get rewarded for it."

Gary Wilson joined Marriott in 1974, sold off theme parks and a cruise line and helped Marriott focus on hotel management—still its strategy.

Wilson devised the build-sell-and-manage strategy that got Marriott in trouble when the tax laws changed, but by then he was devising clever financial structures for Walt Disney Co. When he left in 1989, his Disney stock options were worth \$100 million, says Wilson.

Asked what he and the

other Marriott alums learned at their corporate alma mater, Wilson replies, "To use finance to add value to the company."

The other lesson was to use other people's money aggressively—not always to the benefit of creditors, critics say. "Nobody ever lost money on a Gary Wilson deal," bristles Wilson. Retorts Deborah Pederson, an American Express portfolio manager: "Managers are judged on total returns. When the value of bonds falls because of what the company does it hurts." —R.K.



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SE. R. ISN'T IT TIME YOU EXPERIENCED IT IN THE FRONT SEAT?



What's an idea worth? Morris Chang saw a market niche that others neglected. His vision is now a business with a market capitalization of nearly \$5 billion.

Silicon in, cash out

By Andrew Tanzer

IN 1984 MORRIS CHANG, a China-born Stanford- and MIT-educated electrical engineer then president of General Instrument Corp., saw a niche developing in the integrated-circuit industry. Many talented semi-

conductor engineers were leaving big chip companies like Texas Instruments and Intel and setting up their own design houses in Silicon Valley. Lacking the capital or manufacturing expertise to set up wafer fabrication

facilities, these so-called fabless design houses typically subcontracted semiconductor production to Japanese chipmakers. But this strategy was far from ideal: It put intellectual property at risk and depended on the Japanese chipmakers' having excess capacity.

Chang had an idea. Why not set up a contract wafer fabrication facility to serve these designers? But in 1985 Chang, then 53, accepted an invitation from Taiwan's government to move to Taiwan and promote the development of the island's nascent semiconductor industry. The contract wafer idea went on the back burner. But only for a while.

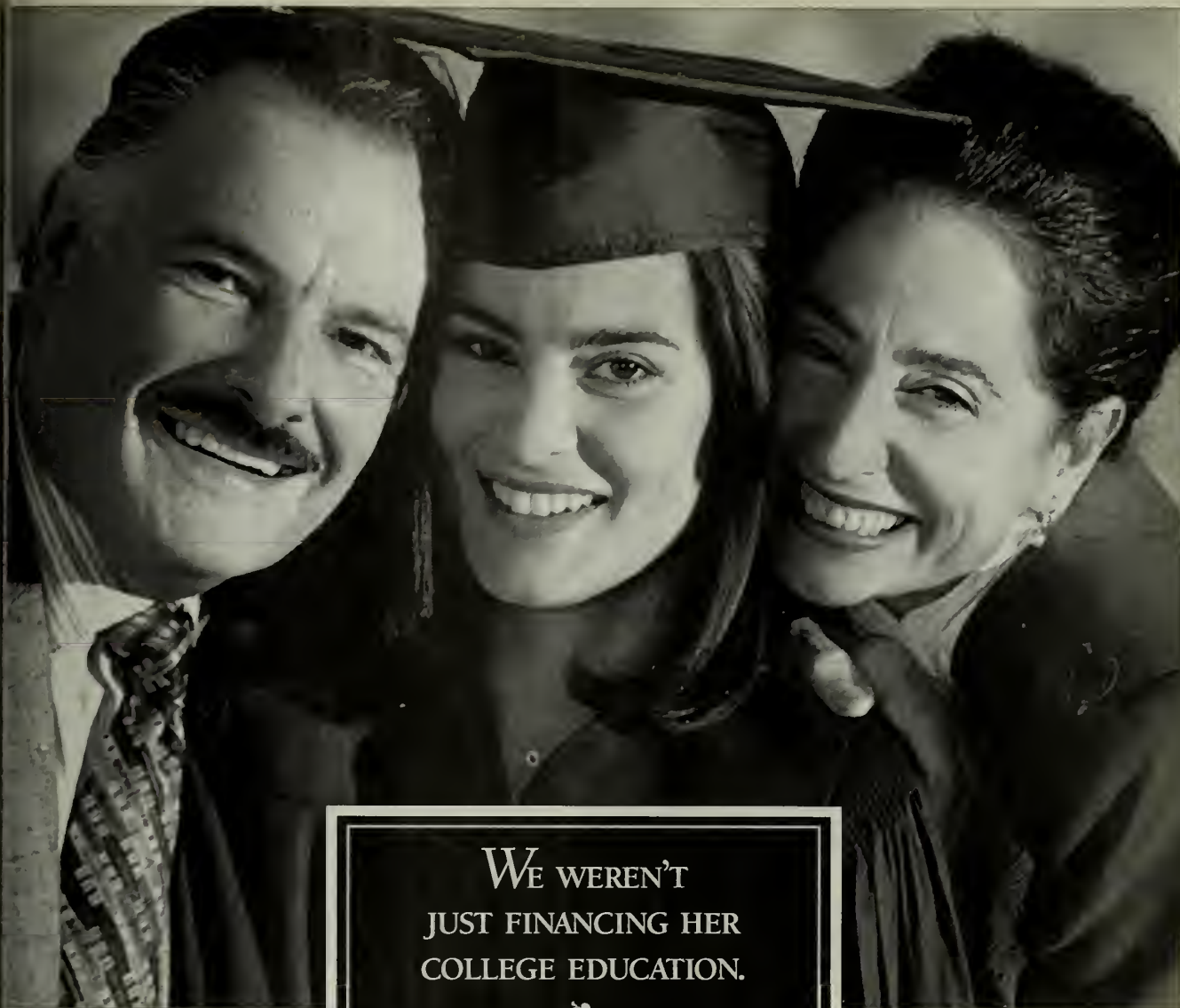
In 1987 Chang formed Taiwan Semiconductor Manufacturing Co., a foundry joint venture between the Taiwan government and Holland Philips Electronics N.V., with the government putting up most of the capital. Chang set up the company Hsinchu, the island's high-tech industrial zone, and installed himself chairman.

Taiwan Semiconductor, which went public on the Taiwan Stock Exchange last September, is now the world's highest-margin chipmaker. In 1994 earnings doubled to \$33 million on sales of \$744 million, a 44% aftertax margin. (Like most Taiwan's chipmakers, the company pays almost no tax because of government-granted tax holidays and investment credits.) Compare this with Intel Corp.'s net margin of 20%.

Jonathan Ross, country manager for HG Asia Securities Taiwan Ltd., predicts Taiwan Semi's profits will surge 58% this year, to \$513 million, a



Taiwan Semiconductor Chairman Morris Chang
Feeding an insatiable demand for chips.



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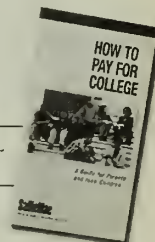
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President Donald Brooks and fab facility in Taiwan

Yields and capacity use are the keys.

sales of \$1.04 billion. Market cap: \$4.7 billion.

As the world's first and largest pure chip foundry, Chang's company has benefited from the worldwide shortage of wafer fabrication capacity, due to a 60% increase in global semiconductor sales from 1992-94.

Chang chose well when he picked Taiwan. The country has an abundance of risk capital and of electrical engineers, many of them U.S.-trained (*FORBES*, Apr. 17, 1989). The nation is a huge consumer of chips. Nimble and entrepreneurial manufacturers have made Taiwan one of the world's top producers of desktop and portable PCs, and the leading producer of peripherals from keyboards and monitors to image scanners and mouse pointing devices.

Keh-Shew Lu, president of Texas Instruments Asia Ltd., estimates that Taiwan will consume \$6.3 billion of chips this year, surpassing Germany to become the world's third-largest chip market after the U.S. and Japan.

About 60% of Chang's sales are to chipmakers without fabrication facilities,

such as California's Cirrus Logic and Chips & Technologies. The rest are to chipmakers short of capacity, such as Philips, Siemens and Advanced Micro Devices. Japanese chipmakers, too, have come calling. NEC and Fujitsu placed orders in the second half of 1994.

"The Japanese lack capacity," explains Donald Brooks, Taiwan Semiconductor's president. "They have underinvested the last three to four years and now their business is coming back."

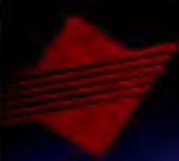
Brooks, a Texan who worked at Texas Instruments with Chang and was once president of Fairchild Semiconductor, says his foundry has been turning away business since November 1992. Margins may dip slightly from late 1995 when Chang's third semiconductor facility (cost: \$800 million) enters production, to be followed by a \$1 billion fourth factory later this decade. Both of these facilities will process 8-inch wafers, the industry state of the art.

Why is the company so immensely profitable? In the capital-intensive

wafer fabrication business, capacity utilization, wafer yields and overhead are the critical variables. Taiwan Semi has been running its two fabrication facilities at over 100% of designed capacity. HG Asia's Ross estimates wafer yields—the portion of output that passes quality control—are 97% at Taiwan Semiconductor, one of the highest rates in the world, aside from fully automated factories. Yet Taiwan Semi's engineers' wages are half those in the U.S. or Japan.

Competition? The world's second largest pure foundry is Singapore government-backed Chartered Semiconductor, a Taiwan Semi imitation. Foundries have also sprouted in Israel, Thailand and the U.S. Among these Taiwan Semi has technical leadership, manufacturing chips at the 0.5-micron level. Also helping to protect Chang's margins is the fact that barriers to entry are high. A new world-scale chip factory costs at least \$700 million. By contrast, a highly successful chip design house like Cirrus Logic has sales of only \$500 million or so.

Morris Chang's stake? Apparently he was more interested in developing his idea than in getting rich. Today he owns less than 1% of the company. That's not hay, but the really big winner is Philips, which probably invested less than \$100 million in the Taiwan company and last year sold 2.8% stake for \$80 million. Philips' remaining 36% stake is worth \$1 billion—15% of the Dutch giant's entire market value.



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Virginia Kamsky has some advice for people who want to invest in China: If you can stand the heat, get into the kitchen.

Buy China—carefully

By Robert Lenzner



Virginia Kamsky (center) with staff and friends on a Beijing street
"Each crisis weeds out the fly-by-nights."

EVEN BEFORE the trade war broke out, investors were suffering the jitters about China. They are having second thoughts about emerging markets everywhere, of course, but China presents special problems. What happens when Deng Xiaoping breathes his last? Inflation runs 20% a year. Meanwhile, a well-publicized series of defaults by Chinese government corporations and trading firms has spooked investors.

Virginia Kamsky is not having sec-

ond thoughts. A 41-year-old American who started studying Chinese at the age of 10 and has worked as a financier in Beijing for 17 years, she remains as bullish as ever. "Take the shares of Shanghai Petrochemical," she says. The ADR trades on the New York Stock Exchange at 25 times earnings. "It's like buying into Union Carbide after World War II."

Kamsky, of course, can ill afford to be bearish about this market. Unlike the international investors who think

of China as just another chapter in the 1990s emerging markets fad, Kamsky has her livelihood bound up in China Kamsky Associates, which she founded in 1980, has 33 employees in Beijing, Hong Kong and New York. They consult mostly with Western firms that want to invest or do joint ventures in China, and they help manage Zhonghua (China) Investment Management Partners, a \$50 million venture capital fund.

It neither surprises nor dismay Kamsky that many investors are having second thoughts. "Each crisis weeds out the fly-by-nights from the serious players," she says.

Kamsky is certainly a serious player. She has connections. Her mentor include her father, Leonard Kamsky, former chief economist for W.R. Grace & Co.; David Rockefeller, former chairman of Chase Manhattan Bank, for which she opened the first China office in 1978; Maurice Greenberg, chairman of American International Group; and Leon Levy, the founder of Odyssey Partners. Maybe the most credit should go to her mother, Sonya, who pushed her into studying Chinese at a time when it was scarcely in fashion.

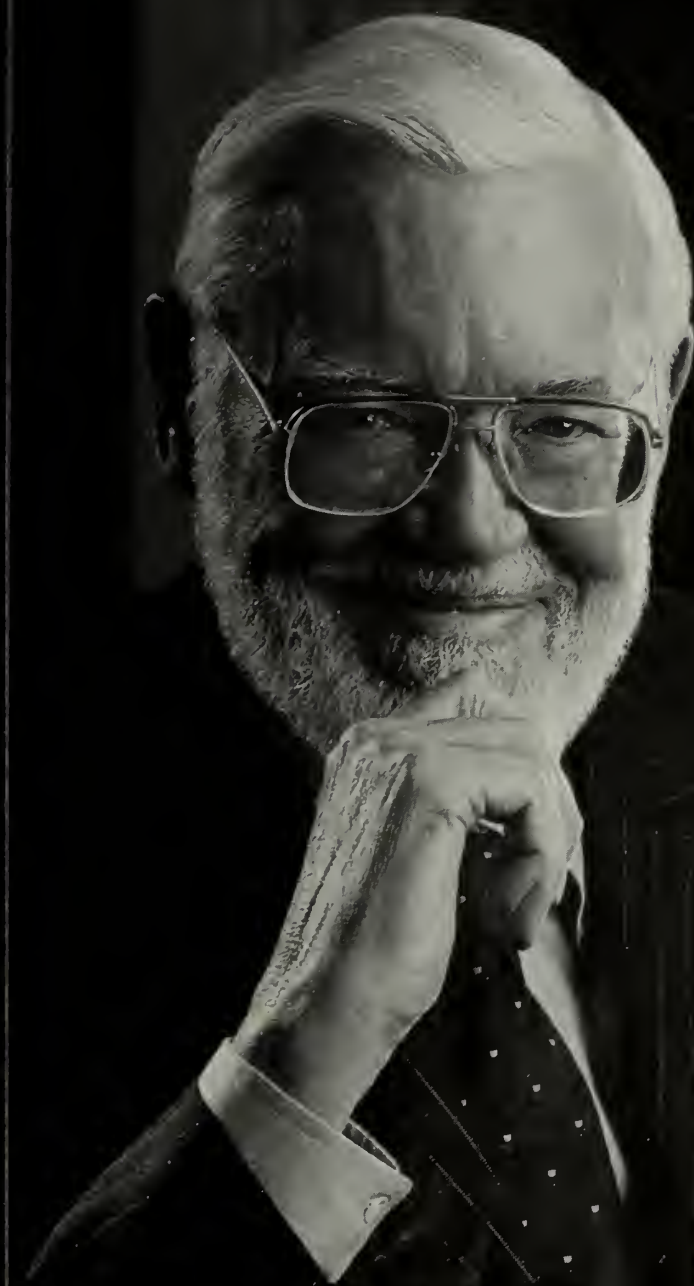
In China, Kamsky's friendship run the corridors of power—part secretaries, mayors, provincial governors. She became friends with Ambassador Ji Chaozhu, a former interpreter for both Mao Zedong and Zhou Enlai. She met Ji while at Chase Manhattan, and has remained close to him ever since. Xie Xide, the former Communist Party Secretary of Shanghai, has been a Kamsky chum since 1980.

Last May the Xie connection helped Kamsky beat out a competitor to gain a stake in a fast-growing government enterprise that needed cash. Zhonghua, Kamsky's investment pool, together with the Swiss Sicp bought 70% of government-owned Shanghai Chemical Ink Co. for \$1 million.

Shanghai Chemical gets most of its \$40-million-a-year revenue from ink used to print packages for products like cigarettes, cosmetics and bubble gum—precisely the kinds of products that benefit in the early stages of consumer society. The firm is barely making a profit, but she expects it to

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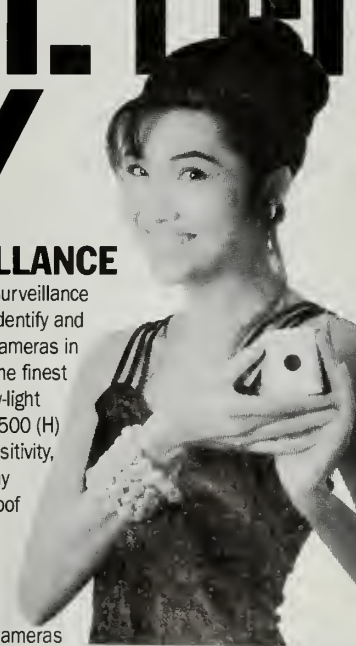
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grow as much as 50% a year, and the buyout came at a 50% price-to-sale ratio. "You can't buy into a consumer market with such a huge population as such a cheap valuation anywhere else in the world," claims Kamsky.

The deal was a no-loser for Kamsky. Sicpa paid Kamsky Associates a retainer, enough to cover her firm's overhead for a while. Kamsky also got an equity kicker (she won't say just how big).

From her close-up vantage point China looks like a great bet right now to Kamsky. Her advice to other capitalists venturing into China:

First, don't make a move without a strategic partner (like Sicpa) that knows the business and can stay on top of the Chinese operation.

Second, get majority control so that you can change management if you need to.

Finally, devise an exit strategy with more than one alternative. The Shanghai Chemical deal was designed to get Zhonghua out via either a sale to Sicpa or a public offering.

Kamsky has no illusions about China being a riskless investment. In 1980 the Chinese canceled the China World Trade Center in Beijing, a blow to her former employer, Chase Manhattan. Large transactions in telecommunications and health care are "still under negotiation after several years," Kamsky admits wistfully. Eventually they will take place, she believes.

Disappointments other investors experience she traces to a lack of due diligence. "I feel strongly that Western partners didn't do the homework," says Kamsky. "U.S. companies are so caught up in the China fever, they don't apply the same standards used in the U.S."

Impatient U.S. entrepreneurs are bound to get in trouble, she suggests. "Anybody and everybody can get in the way of a project. Patience is very important. Most Western companies don't have it. They have a hard time hanging in."

Harry Truman used to say: If you can't stand the heat, get out of the kitchen. But if you can stand the heat, that's the place to be. Says Kamsky: "In a period like this, when people are most nervous about China, you can make the most money."

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*Financial World, "The State of States" ranking, May 12, 1992; May 15, 1993.

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Ta dah:

Larry Fuller has struggled for four years to cut Amoco Corp.'s overhead while increasing sales of its most profitable products. There are early signs that he's beginning to succeed.

Catching up to Exxon

By Toni Mack



Amoco Chairman Lorraine Fuller
"We had checkers checking checkers."

BEFORE JOINING Chicago-based Amoco Corp. in 1961, Lorraine Fuller was a scholarship student at Cornell University. Of over 100 students who entered Cornell's chemical engineering program with him, only 35 graduated in the field. "It was god-awful competitive," recalls Fuller, an electrical engineer's son who grew up comfortable but not wealthy. "I was up against a lot of kids from private schools, and I learned I could compete."

Fuller, now 56, kept competing and in 1991 won Amoco's top job. This landed him in the greatest battle

of his career: pushing \$30 billion (1994 revenues) Amoco to the top of big oil in profitability. A difficult challenge. With a five-year average return on equity of 11.4%, Amoco has been more than three percentage points behind Exxon (*see table, p. 66*).

Fuller thinks that he can pull it off. This is how he puts his strategy for doing so: "To grow in a slow-growth business, we've got to gain market share and find pockets where the growth is faster."

One such pocket is gasoline marketing. Amoco is already strong here. Over half of its gasoline sales (\$1 billion last year) are accounted for by premium-grade gas. This is the highest proportion in the industry. Energy analysts figure Amoco earns 4 to 5 cents a gallon more on premium gas than on regular. Largely as a result, Amoco's per-barrel profits on refined products usually rank first or second among the majors; only Royal Dutch/Shell is a serious rival.

The question is: how to move more gasoline through the Amoco system. Answering that question falls to Robert Rauscher, group vice president for petroleum products marketing. In sharp departure from standard practice in the insular oil business, Rauscher has lured brand managers from consumer products companies like Miller Brewing and Quaker Oats to help him market gas. "We're studying our customers better," says Rauscher. "We can decide fast whether something works."

One promising new idea is a variation on the old gas station/convenience store theme. To add to its base of 9,600 gas stations, mostly situated in the eastern and midwestern U.S., Amoco has begun sharing sites with McDonald's, Burger King and other big-name consumer firms. The concept is that busy customers can feed the kids and gas up the car on the same trip. And Amoco gets another company to share the real estate, construction and operating costs.

In the past few years Amoco has tested the idea at 15 such outlets. Now Rauscher plans to spend roughly \$100 million to build over 100 more this year.

Amoco is North America's largest producer of natural gas; the division contributes around \$2.5 billion in revenues. But Amoco never excelled at marketing the gas its geologists found. Then, in 1993, Fuller hired Rebecca McDonald away from Tenneco and told her to find more customers for Amoco's ample natural gas supplies.

Until recently federal rules mandated that gas producers sell their gas to pipeline companies, which then resold it to end users. But the regulations have changed, and McDonald, 42, has been selling gas—along with services

tions would have my teeth rattling. Instead, I casually sipped a cup full of hot coffee and spilled not a drop. I was driving a Range Rover.

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Amoco gets god-awful competitive

Company	Recent price	—Return on equity—			Earnings per share		Estimated 1995 P/E
		5-year average	1994	1995 est	1994	1995 est	
Amoco	59 1/8	11.4%	13.1%	14.3%	\$3.60	\$4.14	14.3
British Petroleum	78 3/4	6.3	8.3*	16.4	2.51*	5.39	14.5
Chevron	47	10.8	10.7	13.2	2.45	3.13	15.0
Exxon	63 3/8	14.8	14.4	13.8	4.07	4.18	15.2
Mobil	86 3/4	10.1	9.8	13.6	4.28	5.97	14.5
Royal Dutch Petroleum	113 7/8	10.8	9.4*	12.4	5.96*	7.69	14.8
Texaco	61 3/8	10.7	8.9	11.7	3.17	4.06	15.1

*Twelve months through Sept. 30, 1994.

Sources: Forbes; IBES, Inc.

If Wall Street forecasts are correct, Amoco will surpass longtime champ Exxon in return on equity this year. Only BP is forecast to do better.

like arranging for gas transport and storage—directly to utilities and industrial customers, thereby cutting out pipeline companies and other middlemen. Example: Amoco recently beat a host of competitors for a 12-month contract to sell Ohio Edison 5 million cubic feet of gas a day—plus all the services needed to manage that supply.

Other large oil companies have begun to do this, too, but none with Amoco's sophistication. "It was a revelation to people in Amoco that we could be as aggressive and creative [in marketing natural gas] as anyone else," says McDonald. She adds that in overseas markets like Colombia and China, where lack of pipelines and energy utilities limits gas demand, Amoco may put up its own equity to help build such projects.

Last year Amoco's gas sales rose 5% (in volume) in a sluggish market. Fuller says Amoco's worldwide gas sales will grow by nearly 50%, to about 2.3 trillion cubic feet a year, by 2002.

He can make that prediction with confidence after turning around Amoco's exploration operations. In the late 1980s and early 1990s, Amoco lavished billions on exploration abroad but found little oil or gas. Reserves shrank 15%. Under Fuller, Amoco sharpened its computer tools and narrowed its overseas focus from over 100 countries to 25. Result: In 1994, for the first time since 1988,

Amoco added more reserves to its books than it extracted and sold. The new reserves are worth roughly \$2.5 billion.

Fuller's strategy of seeking out and investing in profitable pockets shows up especially well in Amoco's \$4.4 billion (revenues) chemicals division. Since 1991 Fuller has shed weak product lines like oil well chemicals and has spent \$1.7 billion to build up faster-growing and more lucrative lines.

An example here: Amoco now holds about 40% of the world market for paraxylene, known as PX, and purified terephthalic acid, or PTA. These products are used to make polyester—and demand for all three is booming, especially in Asia. Amoco—along with partners in Singapore, Indonesia and Taiwan—is spending an estimated \$2 billion on new PX and PTA capacity.

When Fuller was named chief executive during the 1991 recession, the chemicals division earned a paltry \$68

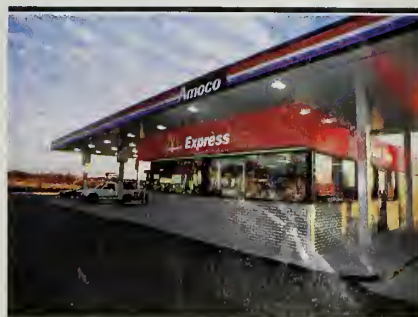
million. Last year Amoco netted \$57 million from chemicals; CS First Boston oil analyst James Clark predicts chemical profits will jump to \$83 million in 1997. At that level, he says chemicals will be earning 17% on the division's invested capital, up from about 11% today.

Like his big oil colleagues/competitors, Fuller understands that in an era of flat energy prices costs must fall if profits and dividends are to grow. He took a big step toward overhead cutting last July, when he replaced Amoco's three traditional operating companies (Exploration & Production, Refining & Marketing, and Chemicals) with 17 freestanding business units. Each reports to a team group headed by Fuller. "We had checkers checking the checkers," says Fuller of Amoco's old corporate bureaucracy.

With trendy concepts like "corporate reengineering" all the rage, it's easy to question the importance of Amoco of Fuller's structural reform. As natural gas unit boss Rebecca McDonald puts it: "Lots of companies restructure. What counts is what you do after that." But this much is not in doubt: With the reform Amoco will be able to shave 8% from its work force by the end of 1995, reducing the total to some 43,000. This comes on top of a 16% cut in 1992. Annual savings: \$11 billion, pretax, about equal to Amoco's dividend payout.

On the basis of early returns, Fuller has reason to feel he's on the right track. Despite sagging natural gas prices and some refinery problems last year, Amoco finished 1994 on a strong note and earned \$1.8 billion (\$3.60 a share), a tad below 1993 earnings. Securities analysts expect earnings to grow 16%, to just over \$4 billion, this year, \$4.14 a share. That would boost Amoco's return on equity to 14.3%—higher than Exxon. Some analysts think Amoco's stock recently around 59 a share, could reach 68 this year.

Far from taking issue with the optimism, Fuller raised Amoco's annual dividend in January by 9%, from \$2.20 a share to \$2.40. This was the first increase since he was named chairman in 1991. It was a strong vote of confidence in his and Amoco's ability to compete.



An Amoco/McDonald's outlet

Amoco is teaming up with big-name consumer firms like McDonald's and Burger King to share the costs of new outlets.

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"The typical American family is living on less than it did 15 years ago. Most of us are getting nowhere."

—Labor Secretary Robert Reich,
in a January speech at the National Press Club

Twisting the numbers

By Janet Novack

WELL, CERTAINLY Robert Reich is getting somewhere: The former untoured lecturer now heads a government bureaucracy with 16,800 employees at his beck and call. In spite of what he says, most of his fellow Americans, too, are better off than they were in the late 1970s.

Bradley Schiller, an American University economist who studies U.S. earnings patterns, flatly contradicts Reich's gloomy diagnosis. Says Schiller: "Most people's incomes have been going up. There's more upward mobility than stagnation."

Stephen Rose, who is the chief economist for the Clinton-appointed National Commission for Employment Policy, draws a similar conclusion. Analyzing data from actual families tracked over time by the University of Michigan Survey Research Center, Rose finds that 67% of working-age American families were better off in the 1980s than they were in the 1970s. Even at the low end of the education scale, where gains were smallest, nearly six out of ten families headed by working-age high school dropouts scored real income gains during the 1980s.

What's Reich's basis for his gloomy analysis of what happened in the Reagan years? Instead of actual families' incomes he compares median incomes in 1979 and 1993. According to census data, median household

income in 1993 (\$31,241) was down in real, inflation-adjusted terms by 2.8% from 1979, and median family income (\$36,959) was down 3.4% from 1979. (The difference between household and family income is that household income includes individuals living alone.)

Apples and oranges. Reich is en-

gaging in a bit of statistical sleight of hand. He is comparing median earnings at an economic peak, 1979, with earnings in 1993, when the economy was still recovering from a recession. Compare apples to apples and the result is entirely different. From peak to economic peak, 1979 to 1989, real median household income grew by 4.8%. Family income grew by 4.2%.

The gains may be even better than they look. More wage earners live alone today than a decade ago and more. Many more households are headed by divorced (or never married) mothers than were a decade ago. Both changes bring down reported median incomes. According to one census study, simply between 1980 and 1989 the change in the household mix cut reported median household income by 4%. If that's correct, there could have been a gain of more than 8%, if living arrangements hadn't changed.

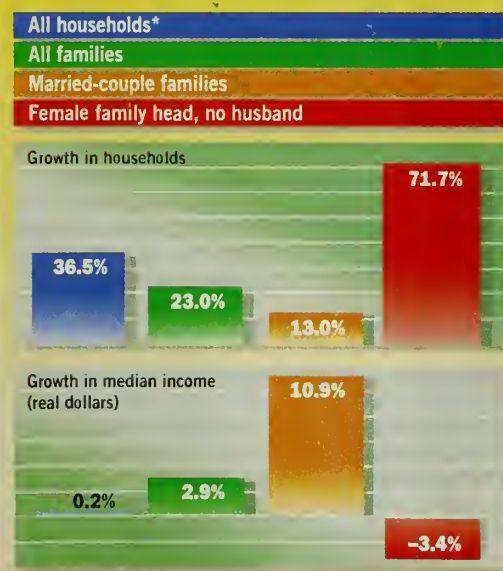
Many serious scholars further believe that some poor people substantially underreport their income, and that some households counted as "poor" are in fact solid middle class. Consider this: In 1993 the mean reported income of the bottom 20% of households was \$6,395, but their average reported spending was \$13,957.

In testimony to Congress in January Reich drew a picture of mom and pop slaving at two jobs six days a week and barely earning \$30,000 a year between them. But according to the Census Bureau, the 1993 median income for families in which husband and wife worked full time was \$60,711. Even in families where both partners stopped their education after high school, earnings exceeded \$45,000, assuming each earned the median for a full-time worker over 25 of his or her sex and education. Even if both are high school dropouts, they pull around \$35,000 a year.

To bend slightly what Mark Twain quoted Benjamin Disraeli as saying: There are lies, damn lies and statistics that politicians use to justify government programs.

Stay married, do better

Percent change from 1974 to 1993
in types of households and their median incomes



*Includes families, individuals living alone and unrelated individuals living together.
Source: U.S. Bureau of the Census

Families headed by unwed or divorced mothers have grown fast (see top chart). This makes household and family median incomes appear stagnant, although, as bottom chart shows, married couples have done well.

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—John F. Kennedy

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Supermarket to the world

Canton, Ohio has a fountain of youth.
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The soul of an old company

By Eric S. Hardy

Do "industrial tapered roller bearings" and "heavy R&D spending" seem like incompatible phrases? If so, you don't know about Timken Co., a 96-year-old midwestern manufacturer with the soul of a biotech startup.

The world's oldest manufacturer of tapered roller bearings, \$1.9 billion (sales) Timken is also the largest and, over time, the most profitable. It stays that way by constantly looking for-

ward, never backward. Says 59-year-old Joseph F. Toot Jr., who joined Timken 32 years ago and has run it since 1992: "Today's bearing is a dramatically different product than it was ten years ago, and I would be very surprised if the 2005 version is anything like what we're making now."

Henry Timken, inventor of the tapered roller bearing, started the company in St. Louis in 1899. The com-

pany's huge R&D center—situated a few miles north of its Canton, Ohio headquarters—is home to 350 metallurgical engineers, scientists and technicians. Last year they spent \$38 million—more than half Timken's profits—searching for better ways to make bearings and develop new materials and manufacturing processes.

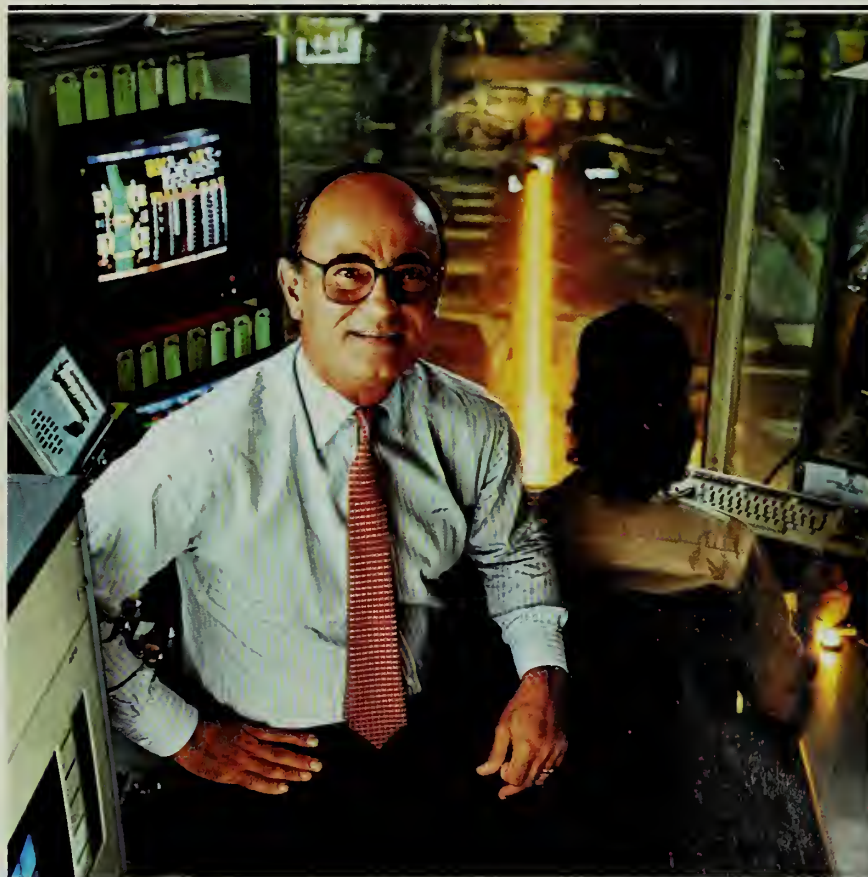
What does Timken get for its money? Compare the Timken bearings that go into the automatic transmission of a 1995 GMC pickup with those of a 1980 model. The new bearings are 30% lighter, can withstand three times the load, last three times as long as the old bearings—yet cost the same (after adjusting for inflation). They also have less friction, adding to automobile fuel efficiency.

Thanks to such advances, Timken's one-third share of the global market for tapered roller bearings is the highest of any firm. Among other things, Timken's researchers are working on improvements in so-called smart bearings (e.g., bearings with built-in electronic sensors for speed and braking). A new bearing for freight-train cars, with a built-in generator, will soon be on the market. In development: bearings capable of adjusting for metal expansion and contraction.

Last September Timken opened its most advanced plant yet, in Asheboro, N.C. The \$120 million facility is so automated that customized bearings can be rolled off its assembly line within a day or two after specifications are set and an order is placed. Other factories take weeks or months.

The Asheboro plant enables Timken to cut the production cost of so-called orphan products—bearings produced in relatively low volumes of a few hundred units (or even fewer). Says Toot, who is as soft-spoken and courtly as he is tall and athletic: "We used to assume that [bearings] produced in low volume necessarily meant they had to be very expensive. Recently, a customer ordered several highly specialized custom bearings. Timken got the order in large part because it was capable of delivering the bearings in less than half the time other companies would have needed."

If Timken's Canton headquarters are quintessentially American, its business is thoroughly global. It manufactures roller bearings at ten U.



Timken Chief Executive Joseph F. Toot Jr.

Applying new technologies to age-old products.

plants and nine foreign factories. A brand-new bearings factory in Singapore supplies Japan and other Far Eastern nations with tiny bearings used in computer disk drives. The factory may eventually supply China when that market opens up. The overseas plants generated 22% of sales last year. Toot says the ratio will rise.

Overall, making and selling bearings accounts for two-thirds of Timken's business. The other third comes from producing 1.25 million tons a year of alloy steel, used for such things as machine tools and precision instruments. Timken stepped up its commitment to this business in 1981, when Chairman William R. Timken spent \$450 million—75% of Timken's equity at the time—on a greenfield steel plant in Perry Township, Ohio, a few miles west of Canton.

At the time, Ohio was in its worst recession since the 1930s Depression, and many old Timken hands as well as company outsiders worried that William (Tim) Timken had lost his bearings. "Some thought the steel plant was too risky," recalls Toot. But last year the plant produced 775,000 tons of specialty alloy steel.

In steel, too, R&D is key. Timken's new class of steel products, branded DynaMetal, has no lead content. This property makes DynaMetal an ideal component for artificial hip joints and automotive applications.

No century-old U.S. company can sustain earnings that rise every year. For Timken, the last few years were a rough patch. The company lost money in both 1991 and 1993 and earned only \$4.5 million in 1992. So while Toot opened new factories, he also trimmed Timken's work force by some 15%, to 16,000 full-time employees worldwide, a 13-year low.

Helped by Toot's judicious cost-cutting and a strong automotive market, earnings came roaring back last year, to \$68.5 million (\$2.21 a share), the highest level since 1988. The stock has rebounded from around 27 a share when Toot was named chief executive in 1992 to a recent 33 1/4.

Analysts who follow Timken say earnings will exceed \$3 a share this year and reach \$5 by decade's end. There's one old American company heading into the next millennium with lots of momentum.



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The controversy at the Smithsonian was not about an airplane exhibit. It was about the values of a society.

The right to infiltrate

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE OF THE TRULY disturbing signs of our times has been the layers of lofty hypocrisy surrounding the controversy over the Smithsonian Institution's exhibit of the *Enola Gay*, the plane that dropped the first atomic bomb on Hiroshima half a century ago.

The liberal media version of what happened is that earnest scholars tried to "educate" the public as to the truth about the decision to drop the bomb on Hiroshima, but that political pressures from right-wing politicians and veterans' groups prevented this noble enterprise from being carried out. According to the *New York Times* account, it was "the professional skepticism of historians" versus people who "want to celebrate their memories, not question them."

Here is a sample of that scholarly professionalism in the Smithsonian exhibit: The war against Japan was "a war of vengeance" waged by the United States while, for Japan, it was "a war to defend their unique culture against Western imperialism." A little more of this kind of revisionist history and our children will be taught that Americans at Pearl Harbor wantonly opened fire on some innocent Japanese airplanes that happened to be flying by.

How surprised would you be to learn

that a leftist professor at politically correct Stanford University was a consultant on this project? He came up with estimates that fewer than 50,000 Americans would have died in an invasion of Japan, the alternative to using the atomic bombs on Hiroshima and Nagasaki.

To put this in perspective, more than 5,000 Marines were killed taking the small island of Iwo Jima and more than 110,000 Japanese died in the invasion of Okinawa—more than were killed in the bombing of either Hiroshima or Nagasaki. Yet Monday morning quarterbacks now confidently tell us how small the casualties would have been invading Japan from the sea, in the face of a whole armed nation—civilian as well as military, children as well as adults—prepared by their leaders for suicidal resistance in defense of their homeland.

Ultimately, however, this whole Smithsonian episode was not about military history. It was about anti-American propaganda, which has become the

Being factually wrong does not matter to those who are politically correct.

norm among the leftist intelligentsia, whether in the academic world, the arts, or the national government's own cultural agencies. It is all of a piece with photographs of a cross immersed in urine, American flags placed on museum floors for people to walk on, and other examples of tax-subsidized "culture."

Nor is this peculiar to the United States. As British historian Paul Johnson has pointed out, the government-supported British Broadcasting Corporation "rarely misses an opportunity to spit in the face of the British people and denigrate the things we hold dear."

For much of this century, the leftist intelligentsia in the West has kissed the behinds of mass murderers from Stalin to Mao, so long as they were anti-American. They have sneered at "the so-called Free World," even as millions of people in the unfree world risked the lives in desperate attempts to get here.

One thing you must grant to these ideologues: They know that they are in a cultural war, as those on the other side often do not. To the anointed of academia and the media, particularly in the nonprofit sector, education like war, is a continuation of politics by other means. The curriculum, the museum, the movie screen, the art gallery, and even corporate philanthropy are all ideological battlefields—and in most of these institutions, only one side is battling. That is why they are winning, despite an occasional setback when something egregious becomes an issue.

In these campaigns, the very notion of truth is treated as a quaint prejudice of a bygone era. Those who are politically correct are never discredited, no matter how often their statements collapse in the face of facts.

Was the feminist movement discredited when its claim that Super Bowl Sunday was the day when the movie wives were battered could not be supported by any evidence? Has Paul Ehrlich or the Worldwatch Institute been discredited by the repeated failures of their hysterical predictions? Did anyone care that homeless advocate Mito Snyder made up numbers out of thin air to garner political support?

Being factually wrong does not matter to those who are politically correct. Some of the bolder members of the anointed have openly expressed the view that various racial charges which turned out to be hoaxes do not bother them because these charges serve to raise consciousness. Similarly, some of the brassier feminists declare that they are untroubled by false charges against some men because men in general are guilty of the things charged.

The controversy at the Smithsonian Institution was not about an airplane exhibit. It was about the values of a society and a civilization—and about people who feel that they have a right to use the taxpayers' money to fight their own ideological wars, and a right to tenure guerrillas with pensions. ■



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Poor Victor Posner. He hates to see someone else get Salem Corp.'s cash, yet he doesn't want to put any more of his own cash on the line to take Salem private.

Victor's last stand?

By Matt Walsh

THE LIKELY SALE within the next few months of Salem Corp. will generate neither big headlines nor fancy investment banking fees. Based in Pittsburgh, the \$125 million (estimated sales) maker of heavy-duty furnaces and equipment for the metals and minerals industries will probably fetch around \$50 million, walking-around money as Wall Street deals go.

Yet the selling of Salem will be a milepost of sorts. Traded on the American Stock Exchange, Salem is the last publicly owned company controlled by Miami's Victor Posner, the asset-stripper and convicted felon who once controlled DWG Corp., Evans Products and Sharon Steel. From 1987 to 1991, Posner received salary and bonuses of over \$31 million from DWG alone. But Posner lost control of these and other companies: As part of a legal settlement with shareholders, he sold some of his interest in DWG; the other companies went bankrupt.

Now 76 and worth an estimated \$425 million, Posner began accumulating his stake in Salem Corp. in 1979. He now owns 49.2% of the stock. But in December 1993 federal judge Milton Pollack barred Posner from ever being an officer or director of a public company; the U.S. Supreme Court declined to hear his appeal. Salem's 13-member board is stacked with 8 Posner cronies, including Posner's brother, former brother-in-law and nephew. But in February 1994 Posner's Salem stake was placed in a trust and is now voted by trustees. Control is seeping away.

Posner's choices are stark. He can sell his stake. Or he can tender for the public stock he doesn't own and take

Salem private.

This is a tough decision. Salem is a real company with a lot of cash in its till. Its U.S. and U.K. units are well regarded in the metals processing and materials handling industries. The company generated a healthy \$3.34 a share in cash flow from operating activities in the nine months ended



Marion Corn Bank/Miami Herald

Ousted raider
Victor Posner
**Posner is
cornered:
His control
over public
companies may
soon end.**

Sept. 30; earnings were probably \$1.50 a share last year, up from 79 cents in 1993 after special charges. Debt was a modest \$2.3 million in September, against cash of \$24 million, \$12.73 a share.

If Posner had hoped to take Salem private on the cheap, those hopes ran aground when Sam Fox began bidding for Salem. Fox, 65, runs Harbour Group, a buyout firm specializing in small, privately held manufacturers in mature industries.

Last November one of Harbour Group's limited partnership pools of

ferred around \$17 a share, cash, for a of Salem's 1.86 million shares. Harbour has since raised its offer to \$21. Two other unidentified bidders have now expressed interest in the company. This has pushed Salem's stock from 13½ last fall to a recent 22.

This puts Posner in a corner. William Pallot, who served on the board of several Posner companies, says the old financier won't let Salem get away from him. "I know Victor, and know how he thinks," says Pallot. "He hates to sell. He wants to own. He wants to possess."

On the other hand, Sam Fox's bidding means Posner would have to come up with over \$20 million in cash in order to buy out Salem's public shareholders. The thought of anteing up all that money probably makes Posner's stomach turn, at a time when he's trying to recover from a rupture of the aorta. Says Donald Glazer, Posner lawyer and majordomo: "The only strategy Mr. Posner has right now

to stay as well as he can and keep getting a little better each day."

When Harbour Group first expressed interest in Salem last November, Posner told Salem's board it would top its offer. But Posner has conspicuously not responded to Harbour's \$21-a-share bid. One source familiar with Posner says the old raider would probably kiss his stock goodbye at \$27 a share or higher. Whoever ends up with the company, Salem may be remembered as the only Posner-controlled company whose public shareholders emerged unhurt. ■

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It's dubious how well minority business set-asides have helped struggling African-Americans or Hispanics, but they are adding to the riches of Florida's Fanjul family.

The set-aside charade

By Phyllis Berman and Alexandra Alger with Toddi Gutner Block

WITH HELP FROM every American who consumes sugar, Palm Beach brothers Alfonso Jr. (Alfie) and José (Pepe) Fanjul have built a fortune worth over \$500 million. The Fanjuls (it's pronounced fawn-HOOL) own 170,000 acres of sugarcane growing property

near Lake Okeechobee in south Florida, and another 240,000 acres in the Dominican Republic, where they entertain celebrities at their famous Casa de Campo resort.

Thanks to the U.S. government's sugar quotas, Americans pay 8 cents a

pound above the world price for sugar. This puts some \$65 million a year into the Fanjuls' bulging coffers and supports a lavish Palm Beach lifestyle that has been well chronicled in the pages of *W, Town and Country*, the *Palm Beach Daily News* and other society publications. Greedy and ruthless (*FORBES*, May 14, 1990), Alfie and Pepe Fanjul were born in Cuba and have lived in Florida for over 30 years, but have yet to apply for U.S. citizenship. They carry Spanish passports, which will allow them to avoid U.S. estate taxes on foreign assets as long as they contend they intend to leave the U.S.

Not content to enrich themselves from government intervention in the sugar market, the Fanjuls are now emerging as cynical players in a taxpayer-financed game: minority set-aside in the tax-exempt bond market. In the game politicians decree that b



pieces—often 20% and more—of local debt issues be allocated to underwriters owned by members of minorities.

Alfie Fanjul, 57, and brother Pepe, 60, own 85% of a Miami-based financial company called FAIC Securities, Inc. Last August Felix E. Granados, chief executive and 10% owner of FAIC, proposed that Dade County, Fla.'s finance director name FAIC a senior comanager on a \$200 million bond issue to expand and upgrade Miami International Airport. Granados readily conceded that thinly capitalized FAIC had little bond underwriting experience. But it had something else. "FAIC is [a] 95% Hispanic-owned and -controlled firm," Granados wrote to Dade County's commissioners. "The firm's Hispanic ownership allows for the opportunity to participate in programs available to minority-owned firms."

Result: From out of nowhere FAIC

Securities was awarded marketing rights to 10% of the \$200 million Miami International issue, in third place with two other firms and behind Goldman, Sachs and Prudential Securities. With just 32 employees, FAIC Securities could earn \$120,000 to \$150,000 on the set-aside. Pretty good for an inexperienced firm that reported net capital on Oct. 31, 1994 (its most recent filing with the Securities & Exchange Commission) of just \$1.4 million.

Thanks to minority set-asides, in the last year FAIC Securities has been picked to participate in a half-dozen municipal and state bond underwritings in Florida, including issues by the Dade County Public Schools, the Florida Housing Finance Agency and the Broward County Public Schools. FAIC has also managed, despite its piddling size, to get a piece of the business of distributing government debt for such federal agencies as Fannie Mae, Freddie Mac and the Federal Home Loan Bank.

Historically, municipal bond underwriting was a lucrative niche dominated by a small group of Wall Street and regional firms. Although these large firms survive and still dominate, the industry has become increasingly competitive. So much so that Donaldson, Lufkin & Jenrette and CS First Boston have both recently pulled out of the municipal bond market. Over the last year, business has deteriorated and commissions have dropped from 1.25% to as low as 0.5%. It hasn't helped that during the last ten years scores of minority-owned underwriters like FAIC have sprung up to take advantage of minority set-asides established either through written legislation or policy changes on the local, state and federal level.

In Florida, for example, the state legislature has just passed a law calling for the state to make an effort to give 20% of each offering to minorities—a nice piece of change considering that in the state there were \$7.64 billion of securities issued last year.

It doesn't take much to qualify as a minority underwriter. Take, for example, Phillip Allen, finance director of Florida's Broward County, where FAIC is grabbing a piece of the business from firms like Merrill Lynch and Goldman, Sachs for tax-exempt un-



David Hansley

A Forbes profile, May 1990
Details the Fanjuls' sugar bonanza.

derwritings. He says, "It's irrelevant to me that the Fanjuls are not U.S. citizens, or that they have millions of dollars. If someone comes to the county asking to be considered for minority business, we accept their representations that they are exactly that. And as far as we are concerned, the Fanjuls' FAIC is a minority business."

At the federal level it's supposed to be harder to qualify. Supposed to be. One bureaucrat at Fannie Mae tells FORBES he "went through the FAIC application with a fine-tooth comb" when he considered the Fanjuls for inclusion in a 56-member group to market Fannie Mae debentures on a regular basis. FAIC made the cut, and now claims to sell \$50 million worth of federal merchandise a month.

What do minority firms like FAIC have to do for their local, state and municipal authority allotments? Not much. In nearly all these deals, the set-aside piece of the issue is basically a gift to the minority firms, according to muni traders at large Wall Street firms. They report that many of the smaller and inexperienced firms to which the politicians direct pieces of tax-exempt underwritings don't have the distribution capacity—or the contacts or the sales force—to sell their allotment. So they do what's known as "selling to The Street," meaning they give their allotment of the issue back to a senior manager (Prudential, say), which is perfectly legal, or out-



Caroline E. Cowg/The Palm Beach Post

The Fanjul brothers, Pepe and Alfie, third and fourth from left
In character at a groundbreaking ceremony, joking with well-wishers, glad-handing politicians. This time it's Alfie shaking hands with Representative Tom Lewis.

side the syndicate, which is forbidden. In either case, they pocket a small but essentially riskless profit on the deal.

The owner of a regional firm in the South explains: "Usually, about ten minutes after an issue is priced, we, as comanager, would get a fax back from one of the participating firms, offering us their portion of the issue at less than the offering price, which tells you they're selling below market price to others."

Suppose, for example, that a county issues a 20-year, \$100 million sewer bond priced to yield 6.5%. A minority firm might be allocated \$10 million of the issue as a set-aside. If the firm marketed the bonds, it might make 63 basis points—\$63,000 on the \$10 million. But if the firm "sells to The Street," it might earn 25 basis points—and this would require only a small sales force and little capital to inventory unsold merchandise. The revenues are practically risk free—akin to getting shares of an initial public offering everyone knows will open higher than the offering price.

Felix Granados denies that FAIC has ever "sold to The Street." But he does say, for example, that if a county

commissioner allocated 15% of a \$250 million deal to his firm, the lead manager wouldn't actually give him \$37.5 million worth of bonds to sell. Instead, the lead manager would keep most of the allocated bonds to sell itself, and give FAIC a "retention" of,

"If someone comes to the county asking to be considered for minority business, we accept their representations that they are exactly that."

say, 2%, or \$750,000 worth of bonds. This means that an institutional fund manager who wanted a large piece of the issue would be forced to do business with the lead manager: He could not count on delivery from a small minority firm like FAIC.

Here's another way these set-aside allotments get moved. If a housing authority, say, demands that minority firms receive a participation, then the

lead manager takes most of the set-aside bonds and books them as "group net sales." In "group net sales," the commissions on each sale are pooled and divvied up among all syndicate members. That suits firms like FAIC fine. They earn commissions whether they sell bonds or not, and without risking a dime's worth of their capital.

Think about what's going on here. The minority set-aside game adds to the inefficiency of the already inefficient tax-exempt bond market. The costs of this inefficiency are paid by local and state taxpayers, in the form of interest rates that are certainly higher than a more efficient market would demand.

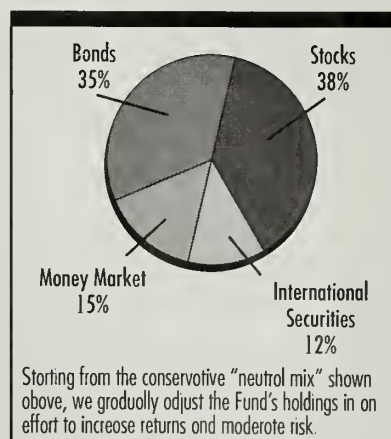
Why don't underwriters who understand the games being played blow the whistle? Because they're afraid of losing business. Says one Miami-based underwriter who has seen minority firms such as FAIC Securities get chunks of the local underwriting business: "It's like being part of a club. If you start to complain about what minorities get for doing nothing, the city commissioners and people like them just won't give you a piece of the

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Felix Granados, standing, center, FAIC's president, in his trading room. **"The category [for minority set-asides] isn't 'economically disadvantaged.' It's 'minority.' And with a last name like Fanjul, that's just what they are."**

action."

Did we say this business costs the Fanjuls nothing? That's not quite right. To make FAIC Securities a member in good standing of the tax-exempt set-aside club requires a certain amount of intelligent greasing of the right politicians' palms. This is an art the Fanjuls have perfected with political figures at every level of government during their decades in the sugar business.

According to the Center for Responsive Politics in Washington, from 1987 to mid-1994 the Fanjul family and its various sugar operations gave a total of \$321,000 in "hard" money to congressional and presidential candidates and Republican and Democratic committees. Hard money is funds given directly to a candidate or to influence an election.

Hard money is only the tip of the iceberg. In addition, Alfie Fanjul was a major fundraiser for Bill Clinton during the presidential election. The family itself gave \$74,000 to the Clinton campaign, and Alfie Fanjul reportedly hosted a fundraiser in Miami that put another \$120,000 in the coffers. Alfie became cochairman of the Clinton campaign in Florida; when the economic summit was con-

vened in Little Rock before Clinton took office, he was seated just three seats from the President-elect himself.

The Fanjuls didn't wait long to ask a few favors in return. Soon after Clinton was in office, Alfie Fanjul arranged a meeting with the new Secretary of the Interior, Bruce Babbitt. The problem: Sugar growing has pol-

"When we go to a restaurant we open five or six packets of sugar and pour them out into our saucers."

luted the Everglades because of phosphorous runoff, and demands for cleaning it up had been escalating. Couldn't the Clinton Administration help negotiate an agreement that would not be too onerous on the sugar growers? Less than half a year later Babbitt announced the framework of a deal. "The Clinton Administration has delivered," crowed Alfie Fanjul as he posed for photographs with Babbitt at the Interior Department.

Florida taxpayers will end up pay-

ing most of the cost of the Everglades cleanup. This will save the Fanjuls and other growers some \$400 million.

Lobbying practices in the municipal bond business are probably at least as questionable as in the sugar business. Gripen a New York-based minority-owned competitor of FAIC. "It's what the industry calls 'pay to play.' Until recently you were only good [as a bond underwriter] as your last political deal."

Some regulators are trying to stop the pay-to-play game. Last April the Municipal Securities Rulemaking Board, a self-regulatory industry group that monitors municipal bond dealers across the country, promulgated a new rule, called Rule G-37. The rule bars underwriters from giving money either directly or indirectly to politicians who could influence their selection for local or state bond deals.

The Fanjuls, through their sugar companies, have been able to ignore Rule G-37. In Florida alone they gave a total of \$50,000 to state candidates after the rule went into effect. On the receiving end were gubernatorial candidate Jeb Bush, the state treasurer, the state secretary and three candidates running for the state board of education. Another \$7,000 went

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again, after Rule G-37 went into effect—to candidates for the Dade Board of County Commissioners.

Their politicking seems to have paid off. Go back to that Dade County award in November of the \$200 million bond issue for the Miami airport. The county manager recommended FAIC as a comanager and allotted 5% of the issue, or \$10 million worth of bonds, to FAIC. But then various polls on Dade County's Board of Commissioners (of the 13 commissioners, 10 are Hispanic or black) began talking about setting aside bigger pieces of the deal for minorities. Maurice Ferre, former Miami mayor and a Fanjul ally for many years, piped up, proposing that FAIC's allotment be increased. The other commissioners nodded, and FAIC, along with black-owned Douglas James, suddenly was named senior comanager on the airport issue. The Fanjuls' allocation jumped to \$20 million, up from \$10 million.

But don't blame the Fanjuls for taking advantage of the set-aside game. Blame the politicians who write the rules. "Look," says FAIC Chief Executive Felix Granados. "The category [for minority set-asides] isn't 'economically disadvantaged.' It's 'minority.' And with a last name like Fanjul, that's just what they are." ■



Alfie Fanjul Jr. and Sr. in 1965 at play in Florida

Cuba's revolt, just six years before, had no dire consequences for this family.

The Fanjuls' next coup?

IN PRE-CASTRO Cuba, Alfonso Jr. and José Fanjul's grandfather Gomez Mena Fanjul was one of the island's most prosperous sugar growers. To demonstrate his fondness for his product, he would fill his coffee cup three-quarters full of sugar.

Today, in Palm Beach, Señor Gomez Mena's great-grandchildren go through a lot of sugar, too, but for a different reason.

"When we go to a restaurant for dinner," Crista Fanjul told *W* magazine in 1987, "we . . . each open five or six packets of sugar and pour them out into our saucers."

Small personal acts, in other words, flippantly demonstrating the Fanjuls' investment in sugar.

But perhaps the Fanjuls' biggest demand for U.S. citizen assistance is yet to come.

As members of a five-year-old group called the National Association of Sugar Mill Owners of Cuba, the Fanjuls and other millers are campaigning for the return of their Cuban sugar properties

come the inevitable fall of Fidel Castro. These properties consisted of four sugar refineries and some of the best sugarcane growing property in the world.

Democratic officials say the Fanjuls strongly supported Bill Clinton for President because Clinton favored the Cuban Democracy Act, according to press reports. Proposed by Representative Robert Torricelli (D-N.J.) and passed prior to the election, that piece of legislation called for tougher economic sanctions against Cuba, in hopes of hastening Fidel Castro's demise and the subsequent return of the

sugar mills.

Members of the National Association of Sugar Mill Owners of Cuba met in Washington in January to discuss the return of expropriated properties to Cuban nationals.

They also are charting strategy for asking Washington to invest in their cane fields and factories. "We plan on asking for financial help from the U. government," says Nicholas J. Gutierrez Jr., a spokesman for the group. "It will take a lot of money to restore all this sugar property, which has been ravaged by bad production methods."

—P.B. ■

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Years ago Malcolm Glazer relied on Wall Street for investment ideas. He didn't make that mistake twice.

An eye for value

By Howard Rudnitsky

EVEN MOST AVID READERS of the business sheets probably never heard of Malcolm Glazer before this January. He emerged from obscurity when he outbid six other investor groups to buy the Tampa Bay Buccaneers, an NFL football team. Price: \$192 million, a sports franchise record.

Isn't that a lot of money for a sports franchise? Glazer shrugs. "I've worked hard and long ever since I was 15 years old," he says. "It's time I got a little fun out of life."

But folks who know Malcolm Glazer figure he didn't really overpay for

paying for things. Some 40 years ago the now 66-year-old Glazer started buying stocks, relying on advice from stockbrokers. "Everything the brokers recommended went down," he says. "I should have shorted everything they told me to buy."

Somewhat poorer but much wiser, Glazer vowed never again to trust others to do his research for him.

Today, thanks to his diligent pursuit of assets and hidden values, his privately owned First Allied Corp., headquartered in Palm Beach, Fla., owns commercial real estate worth

died, Malcolm, his eldest son, had step in and run the business.

There wasn't much of a future watch parts, so Glazer tried selling watches to jewelry stores in Rochester. Glazer wasn't getting far selling couple watches here, a couple there but a man who drove a bread truck suggested that Glazer try to sell watches 20 at a time, to general stores in smaller towns. With their high markups, cheap watches would be attractive merchandise for the shopkeepers. To make his point, the breadman marched into a store with a bread tray laden with 20 of Glazer's watches. Within a few minutes he had sold the entire tray. "That changed my life," Glazer recalls.

In 1951 Glazer won the only contract to operate a watch and jewelry concession at the Air Force base in Geneva, N.Y. He figured, correctly, that servicemen would spend a good deal of their paychecks on watches and jewelry. He made good money on the contract until the base was closed in 1956.

Glazer, still only 26, was tiring of the watch business. After dropping some of his savings at the stockbrokerage houses, he turned his hand to real estate. Borrowing as heavily as he could, he bought rental houses in poor, working-class Rochester neighborhoods, leveraging one property against the next, against the next. This was the stuff of the *How to Make a million in Real Estate* books, but Glazer was there before such books were published and everybody was playing the game.

From rental houses Glazer branched into tracts of commercial zoned land. One tract he bought was also zoned for a mobile home park and Glazer decided to build one. It took two years longer than I expected," he says, but once opened it was so lucrative that Glazer began acquiring as many trailer parks as he could find. He still likes that business and today owns 15 parks. He also started buying nursing homes and now owns five of them.

Not long after, he turned to broadcasting properties. He decided to work-affiliated TV stations in small markets were attractive because competition wasn't intense and banks were willing to lend heavily again



Malcolm Glazer and sons Joel and Brian at a Tampa Bay press conference

Did he overpay for the Buccaneers?

his fun. Sports team appraiser Paul Much, senior managing director of Chicago's Houlihan Lokey Howard & Zukin, points out: "Glazer probably cut a deal with Tampa Bay-area elected officials and business leaders. They will seek to get a new stadium built with public money in the next few years to replace the outdated 30-year-old one." Says Glazer: "We're working on it."

But then Malcolm Glazer didn't get to be a centimillionaire by over-

about \$100 million, a \$160 million junk bond portfolio and major equity stakes in three companies: Gilbert/Robinson Restaurants, Specialty Equipment Cos. and Zapata Corp. *FORBES* estimates Glazer's net worth at more than \$300 million.

People like Malcolm Glazer don't need M.B.A.s; they should be giving them. Glazer's formal education was cut short in 1943, when he was 15. His father ran a little watch parts shop in Rochester, N.Y. When his father

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Malcolm Glazer at his Palm Beach, Fla. home

Building wealth by investing in everything from mobile home parks to junk bonds.

the stations' cash flow. Between 1975 and 1983 he bought four stations. He made \$60 million when he sold three of the stations in 1990. He still owns an NBC affiliate in Laredo, Tex.

After the stock market crashed in 1987, Glazer hired a full-time research securities staff of five and was eager to get into dealmaking. Thus began a brief fling with greenmailing, in 1988. He bought 9.9% of Formica Corp., telling management he wanted to acquire it. When the offer was rejected, he sold his shares at a premium to another bidder. In 1989 he purchased 6.9% of Harley-Davidson. His time his efforts to gain control were thwarted, so Glazer sold his shares in the market at a profit.

In 1991, searching for distressed financial assets, Glazer found junk bonds. Earlier, the *Wall Street Journal* and many of the media pundits had mass-labeled junk bonds as toxic waste, but the badly depressed market was on the verge of one of the greatest rallies in history. With the junk market close to its bottom, Glazer invested heavily in the battered bonds of such companies as Amphenol, Pamida and Gilbert/Robinson. Glazer's junk bond portfolio has appreciated some 100%, to \$160 million.

In one case Glazer used his debt

holdings to acquire a controlling stake. Gilbert/Robinson, for example. The Kansas City, Mo.-based company, which owns Houlihan's and Darryl's restaurants, entered bankruptcy just after Glazer bought its debt, later turned into stock. In 1993 he wound up owning about

Along the way, Malcolm Glazer has stepped on not a few toes. This is hardly surprising, since he plays to win with an energy bordering on ruthlessness.

70% of the \$260 million (sales) company's stock.

Another busted company caught his eye: Specialty Equipment Co. of Belvedere, Ill. Specialty Equipment, a solid \$325 million business selling frozen yogurt and ice cream equipment to fast-food chains, had run into trouble servicing its debt after a leveraged buyout. Its reported earnings were red ink, but its cash flow was strongly positive. Glazer paid \$38 million for a 46% position in 1993.

Today the stock is worth \$80 million.

In early 1993 Glazer acquired a 40% stock interest in Texas-based Zapata Corp., George Bush's old outfit. Zapata owned an undervalued 8.2-million-share holding in offshore oil service company Tidewater. Glazer convinced the board to gradually sell off the Tidewater stock. In 1994 he became chairman of Zapata and put two of his own people on the board. Zapata's marine food business has been sold, and its gas production operations are on the block. With these gone, Glazer will reduce debt and make acquisitions for Zapata.

Along the way, Malcolm Glazer has stepped on not a few toes. This is hardly surprising, since he plays to win with an energy bordering on ruthlessness. For over a decade he has been fighting four of his sisters over his mother's \$600,000 estate. His sisters want more money than the will provides them. Glazer, who gets none of the money, reportedly spent more on legal fees in the last decade than the estate was worth, and is proud of it. "It's the principle. The courts have basically upheld the will," he crows, although the case is still dragging on.

Wanna bet that Malcolm Glazer won't come out ahead on his sports franchise investment?

Is the auto boom slowing?
Depends on whom you believe.

Buying opportunity?

By Jerry Flint

A RECENT *Wall Street Journal* page one headline read, SLOWING DOWN: EVIDENCE IS GROWING THAT U.S. AUTO BOOM IS COMING TO AN END. Two weeks later Windsor Fund manager John Neff, one of the great stock pickers of his generation, told the *New York Times* that he's buying Ford Motor and Chrysler.

Who's right? We'll put our money on Neff. So do The Street's best auto analysts. Ronald Glantz, senior vice president of Dean Witter, sees the market approaching 16 million car and truck sales this year, up from 15.4 million in 1994. Like Neff, he thinks Ford and Chrysler are the best buys.

Glantz, who has an excellent earnings forecasting record, predicts first-quarter earnings at Ford climbing to \$1.50 a share from \$1.13, and Chrysler moving to \$2.70 from \$2.30. For General Motors, he expects the largest jump: first-quarter earnings of

\$2.50, up from \$1.83.

Rising interest rates? Glantz says factors like consumer confidence, used-car prices and, most important, family formation and car replacement needs are more important factors than interest rates, and all of these are favorable.

PaineWebber's Stephen Girskey and Prudential Securities' Philip Fricke agree, predicting that the auto cycle will remain strong for at least two more years.

David Healy of S.G. Warburg & Co. figures that vehicle sales will climb to 15.7 million this year, with higher big three profits. His money is on Chrysler.

Maryann Keller, of Furman Selz, thinks automaker profits will rise 15% to 20% this year, but she tempers her optimism a bit: "Incentives [price-shaving] will go up. The Japanese are starting to creep up from under their

problems. Incremental sales will be less profitable. We'll move from seller's market to a buyer's market."

How many people can afford the typical new car price of \$20,000-plus today? Enough to keep Detroit busy. Remember this: Rising car prices have made used cars more valuable, giving buyers better trade-in prices. Many of those squeezed out of the new-car market by higher prices will be eager buyers for that large number of cars that are now beginning to come off two-year leases.

Another favorable factor is this: Carmakers are currently in a position to supply more of the most popular models, models that do not require price-shaving to move. Two plants are now making Ford Explorers instead of one; three shifts are building Jeep Grand Cherokees instead of two. Chevy Suburbans will soon arrive from Mexico, as well as from a Wisconsin plant. This could push prices down, sales up.

In the era of the 60-month lease, a sticker price doesn't make or break a sale the way it once did. Neither do interest rates. John Neff is probably right: Auto sales will remain strong longer than most people think.

At the moment, however, the market seems to agree with the pessimists. The stock prices of Detroit's big three carmakers are down an average 27% from their highs a year ago. Responds analyst Girskey: "You know what the market has called 15 of the last 3 recessions."

Where the buys are

Company	—Earnings per share—		Estimated 1995 P/E	Dividend yield	52-week		Recent price
	1994	1995e			high	low	
Chrysler	\$9.54	\$10.48	4.4	3.5%	61½	43½	46½
Daimler-Benz	1.20e	2.43	20.0	0.7	55¼	43¼	48½
Ford Motor	5.29	5.43	4.8	4.0	33½	24¼	26½
General Motors	6.23	7.93	5.2	1.9	63¾	36½	41½
Honda Motor	0.95e	1.42	22.1	0.8	37¾	30¾	31¾
Nissan Motor	-0.66e	0.11	NM	0.8	16¾	14½	14¾
Toyota Motor	0.77e	1.31	28.2	0.8	42¾	37	37
Volvo	3.82e	3.52	5.7	0.8	20½	15½	20

e: Estimate. NM: Not meaningful.

Sources: Value Line Database Service and IBES, Inc. via OneSource Information Services.

**Domestic auto stocks
are much cheaper than foreign ones—
for no good reason.**



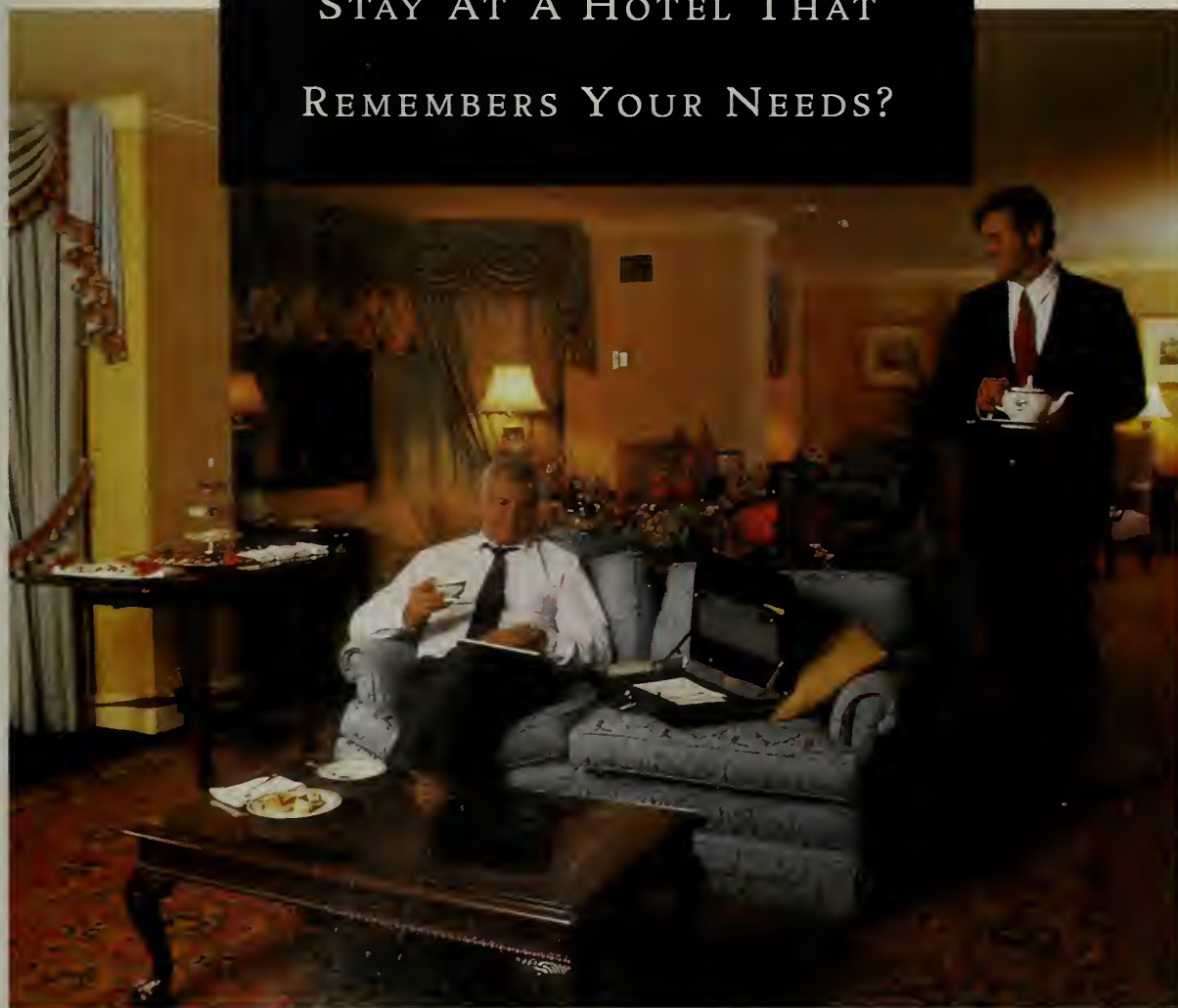
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Skiing injuries were a honeypot for the trial lawyers until the ski industry learned to fight back.

Turning the tables

By Seth Lubove

LATE IN THE MORNING on Mar. 11, 1991 expert skier Joanne Nelson and three friends decided to ski an icy expert trail at Sugarbush ski resort in Vermont. Nelson crashed into a tree, broke her collarbone and fractured her skull. This being America, she sued Sugarbush for "failing to properly maintain the trail."

But Nelson lost. A federal district judge dismissed the case, agreeing with Sugarbush that Nelson assumed the risk of injuring herself when she skied on a trail that she knew was icy.

Skiing is important to Vermont, a sparsely populated state with little industry. Skiing produces thousands of well-paying jobs. Those jobs were threatened by litigation, which had caused premiums for liability insurance to shoot up from 1% of revenues in 1978 to as much as 15% by 1991. That was the same year the Vermont legislature passed a law to protect ski areas from frivolous lawsuits. The law provided guidelines for ski areas to adequately warn skiers of potential dangers. The judge who threw out Nelson's lawsuit was acting in accordance with that law.

Vermont's big troubles with litigation began in 1978 with Sunday v. Stratton Corp. James Sunday was paralyzed after skiing into snow-covered brush at Stratton Mountain, Vt. He sued and won \$1.5 million. "Sunday literally opened the gates," says David Cleary, a Rutland, Vt. lawyer and special counsel to the National Ski Areas Association. Awards and claims mounted in a sport where the risk of injury is always high. By the late 1970s the number of firms underwriting the industry had dwindled to two, Ameri-

can International Group (which owns Vermont's Stowe ski resort) and Lloyd's of London syndicates.

Surging insurance premiums forced many marginal ski areas out of business. Colorado's state legislature took the lead with a 1979 law that defined the responsibilities of both skiers and ski areas. Ski area operators, for instance, were required to post explicit warning signs on difficult trails, while skiers were responsible for skiing in control.

But that didn't stop the trial lawyers. In 1989 Les Peer, an expert skier and professional ski representative, was paralyzed after hitting a snow-covered summer work road on a slope on Aspen Mountain. A jury socked

Aspen Skiing Co. for \$5 million which grew to more than \$10 million with interest.

In 1990 Colorado's legislators drafted a tougher law that spelled out in detail the "inherent dangers and risks of skiing, and capped damages at \$1 million. Pulling out all the stops to block the legislation, plaintiff attorneys rolled a paraplegic woman injured in a skiing accident into the hearings. The law passed anyhow.

The law is working. According to Peter Rietz, whose Denver law firm White & Steele defends several ski resorts, negligence lawsuits against Colorado ski resorts have fallen by some 50% since 1990.

Following Colorado's lead, 27 states have passed similar laws protecting ski areas from unreasonable lawsuits. Some insurance firms, such as Continental Insurance Co., are now underwriting the industry.

The ski resorts have fought back in other ways against predatory lawsuits. They've turned their ski patrolers into mountainside detectives who now take copious notes on injuries and accidents. "That's a big change that affected our defensibility of these cases," says defense lawyer Rietz.

Trial magazine, a mouthpiece for the Association of Trial Lawyers in America, is alarmed. It recently reported that only 23% of skiing accident cases that went to verdict resulted in the plaintiff's favor, compared with 55% for all sports liability cases. Still, you can't keep a good trial lawyer down. Rietz says he recently received a new book written by a plaintiff's attorney. Its topic: how to sue Austrian ski resorts.



Imagine A COUPLE OF SWEDISH ENGINEERS

AND A COUPLE OF GERMAN ENGINEERS

DECIDE TO GET TOGETHER FOR *dinner.*

AND THE SWEDISH ENGINEERS START

TALKING ABOUT SAFETY AND THE GERMAN ENGINEERS

TALK ABOUT THE JOY OF DRIVING.

WHAT DO YOU SUPPOSE WOULD *happen?*

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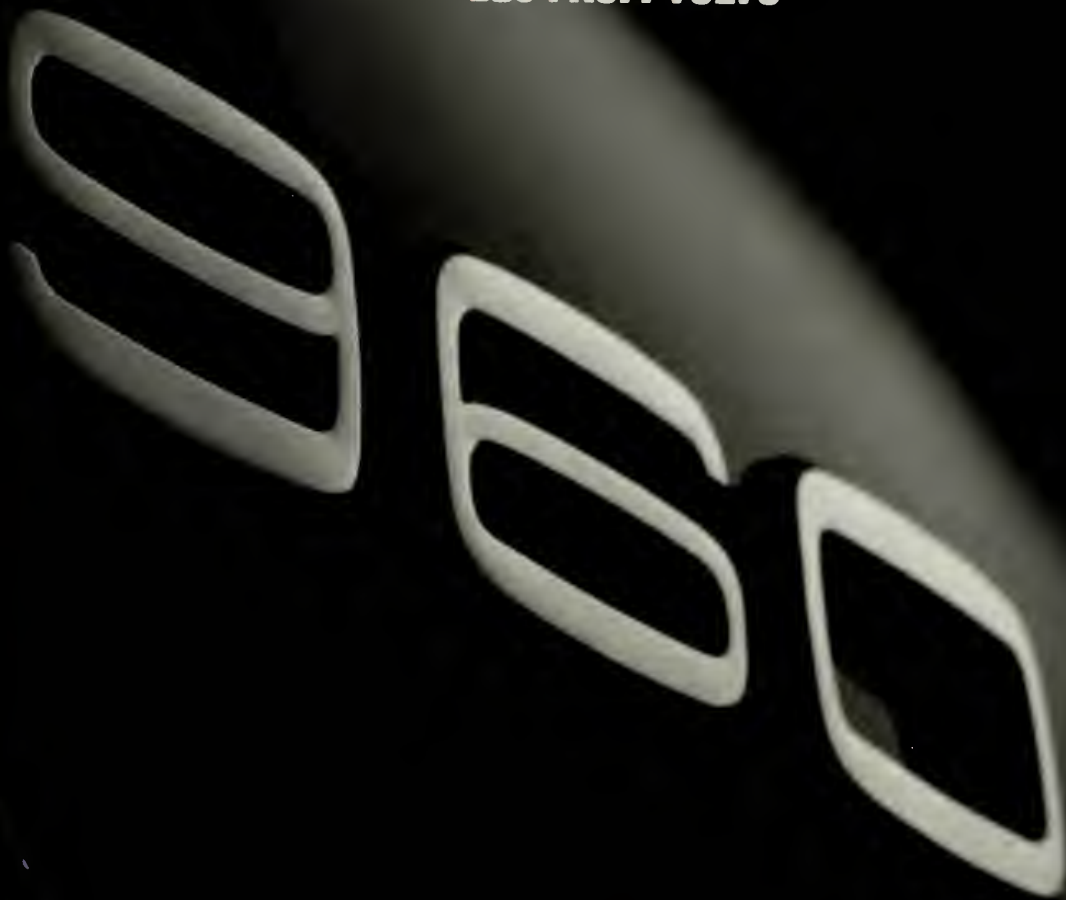
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pleasure and comfort. From the Volvo engineers would come

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was born.

A twenty-four valve engine deliver

low-end torque. A new suspension grabs the road in a tenacious g



A cabin gracefully appointed with a sunroof,

array of power features welcomes you. And a

The seats are elegantly faced with plush leather.

steel safety cage, serve to help protect and comfort. THE NEW 960



for



How does a full-logic cassette stereo with anti-theft coding and 6-disc capability sound?

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8-way power adjustable driver's and front passenger's seats allow you to find the perfect seating position.



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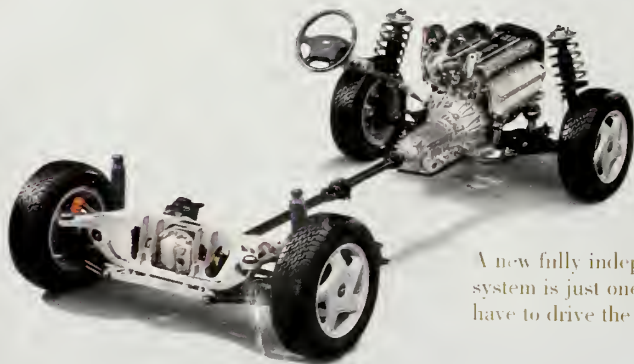


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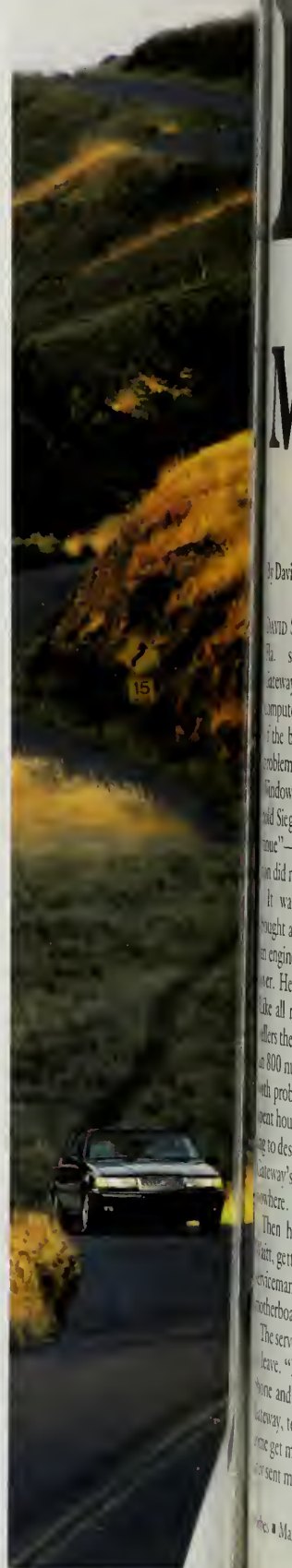
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It's boom time in the personal computer business, as billions of dollars' worth of powerful multimedia machines go into the mass market. Do John and Jane Public really require all that technology?

Help!

My PC won't work!

By David C. Churbuck

DAVID SIEGEL, a Boca Raton, Fla. stockbroker, bought Gateway's 486DX personal computer last May. Right out of the box, the machine had problems. It wouldn't run Windows. It locked up and told Siegel, "Press F1 to continue"—but pressing the button did nothing.

It was as if Siegel had bought a new Chevrolet with an engine that wouldn't turn over. He was hopping mad. Like all mail-order computer sellers these days, Gateway has an 800 number for customers with problems. Siegel says he spent hours on the phone trying to describe his problem to Gateway's technicians. He got nowhere.

Then he tried to call Gateway President Theodore Waitt, getting as far as Waitt's secretary. Two days later a serviceman pulled up at the Siegel residence to install a new motherboard. But the new board didn't work, either.

The serviceman packed up his screwdriver and prepared to leave. "I stood in front of the door with my portable phone and wouldn't let him go," says Siegel. "I called Gateway, told them it was an emergency. I told them to come get my computer, that I didn't want it anymore. So they sent me a new one."

End of problem? Not yet. "I had to load all the software. Me! A novice!" Siegel gripes.

Siegel is finally pleased with his machine, but Gateway is losing money on him already. David Siegel represents the flip side of the personal computer boom. By the numbers, Gateway 2000 is going gangbusters, sales up 56% to \$2.7 billion last year. But as the sales mount for Gateway and its competitors, so do the number of potential David Siegels.

Gateway has plenty of company in having to deal with frustrated, sometimes irate, customers. Packard Bell, the



Illustrations by Hal Mayforth

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Illustrations by Hai Mayforth

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Gateway has plenty of company in having to deal with frustrated, sometimes irate, customers. Packard Bell, the

leading seller of PCs through retail stores, had 800 people on its technical support staff in Magna, Utah in December. That wasn't enough, so it has added another 200. Dell Computer has 500 people in customer support in Austin, Tex., fielding 4,000 to 16,000 calls a day, 365 days a year. Microsoft averaged 25,000 calls a day in December.

All these callers are putting the computer industry in a terrible bind. If the advice is too freely dispensed, customers want too much of it. There just isn't enough profit in a commodity PC—or in a \$29.95 CD-ROM—to pay for all the hand-holding that customers need.

The customer relations problem is going to get worse before it gets better. Gateway sold 1 million computers last year and figures that the average buyer will call in three times pleading for help. Many of the calls relate to problems that are the fault of the user or of some other vendor, such as a software supplier. But the customer blames the company whose name is on the box. The customer wants immediate satisfaction and gets angry when he doesn't get it.

Often he doesn't. A call to the vendor can be such a miserable experience that users will turn to friends for help before they even try the 800 number. They get busy signals, call-processing systems and recorded messages that steer them to written troubleshooting guides that will be mailed or faxed back to them.

Do we exaggerate? Go into any on-line users' forum and listen. The natives are restless. Few vendors are spared.

"Someone needs to walk into Mr. Dell's office, stop him from playing in all his money, and hand him a phone," complains one customer in an America Online chat group. Other PC users chime in:

"The horror! When someone says Compaq, my right eye twitches."

"I've been trying to get through to Acer tech support for two weeks now. On the 27th, I was left on hold for over an hour and a half before I was disconnected."

"Hello! Is there anyone at Broderbund? Are you going to do anything about my problem?"

**"Hello!
Is anyone there?
Are you going
to do anything
about my problem?"**

"I have spent over 30 hours of my valuable time on this migraine-causing excuse for entertainment and still cannot play it," gripes a recent buyer of Sierra On-Line's new King's Quest VII CD game. "I honestly hope that it snowballs into a major loss for you consumer-rapists."

Are the unhappy customers who take the time to mouth off in an on-line discussion group just a troublemaking minority? Maybe, but look what a few unhappy customers did to Intel. They used the Internet to shame the company into correcting an obscure bug in the Pentium chip—at a cost of \$475 million.

The Pentium bug, moreover, was so mild that scarcely any user knew he had it until he was told. The problems faced by most novice PC buyers are far more elemental. A printer refuses to print your spreadsheet, your sound card is silent, your screen goes blank.

It's this simple: Taking delivery of a computer isn't yet as easy as taking delivery of a new car. The new car may have unexplained rattles, but at least it goes—not always so with personal computers.

Customer support at a computer company is not a good job for someone with a low boiling point. Says Mikael Blaisdell, an Alameda, Calif. customer support consultant: "Some groups have installed punching bags so their techs can go smack the hell out of it."

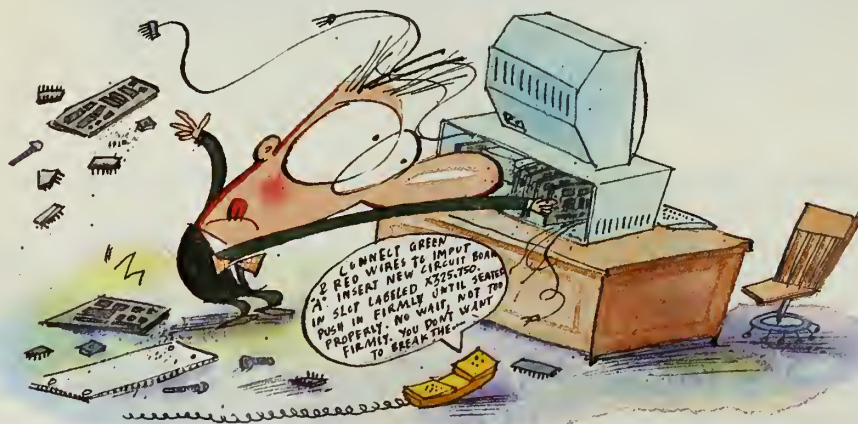
The job hazard is "screamers." A screamer is the customer who spent ten days getting only recordings and call-processing machines and who, on finally reaching a live human being, explodes with frustration.

Stephen Smith, director of technical support and customer service at Dell, sympathizes with the screamers. "You get a few hundred every day," he says. "These people are shattered. One call came from a good old boy outside of town, here in Austin. He was running a propane business. His grandson convinced him to get a computer to run the business on. The guy got a program that helped him schedule deliveries and handle the billing. One morning he comes in and the computer is dead. Kaput."

"The weather had turned cold and his customers needed propane. He couldn't figure it out. The technology had failed him. He was ballistic."

A Dell technician soothed the propane dealer enough to get him to answer some questions. Diagnosis: a lightning surge. Result: one customer satisfied that it wasn't Dell's fault. But it took a lot of patience and hand-holding.

Here's what's worrisome: Even when the computer works well at first, problems can develop down the line. Long after it is delivered and the profit booked, a PC can



Crash protection

THE FIRST LAW of personal computing: Sooner or later, all systems will crash.

But you can do things to postpone the inevitable and/or make the crash less devastating when it occurs. We compiled this checklist with the help of Sigmund Fidyke III, vice president of development at TouchStone Software Corp., which makes the WinCheckIt utility program for Windows.

1. Don't turn off your computer while Windows is running. Exit Windows first.

2. Always save an open file before printing it.

3. Make a rescue disk that you can use to get the computer running again if your hard disk crashes.

You can create a rescue disk yourself by formatting a blank diskette for DOS (with the Format A: /S command) and copying key system files from your hard disk onto the diskette: CONFIG.SYS, AUTOEXEC.BAT, WIN.INI and SYSTEM.INI.

Too confusing? Get a utility program that will do all this for you.

4. If the computer is fouled up after you have installed new software, it is probably because the software has monkeyed with your system files. Erase the offending software. Restore the earlier versions of the system files by copying them from your rescue disk back onto your hard disk.

5. Back up important data files onto diskettes.

If you use the computer a lot, get a serious backup system. Buy a tape drive that handles at least 250 megabytes. Use it to back up the entire hard disk periodically, and, in the meantime, to back up all recently altered files.

6. Run SCANDISK or CHKDSK regularly to check the health of your hard



disk. These programs come with DOS (older versions may not have SCANDISK). Fancier versions of the same things are available in utility program packages.

7. Use a surge protector or battery backup.

8. Order your next computer with a bigger hard drive, more RAM, a faster CD-ROM drive and a better fax modem than you think you will need. That way you won't be

tempted to add hardware later.

9. If you forgot to follow step 8, don't add any hardware to your computer unless you know which interrupts (IRQs) are in use. Find that out through a utility program such as WinCheckIt.

10. Don't buy a DOS game (such as Microsoft's Flight Simulator or Epic Pinball) unless you have a good memory manager and a lot of time on your hands to tinker with the system.

11. Before you buy a mail-order computer, try calling the technical support line to see how long it takes to get through.

12. When you buy a mail-order computer, remember the name of the salesman you talked to.

13. When calling technical support, take the call-back option if it is offered to you.

14. If you can't get through, call the salesman.

15. While you are waiting to hear from the tech support person that the salesman promised, post a query about your problem in an on-line forum devoted to the product that is giving you grief.

16. While you're at it, take another look at your computer. Is there a loose or misconnected cable? A phone jack installed in the wrong socket? A chance that your 4-year-old turned down the brightness control on your monitor?

—D.C.C. and STEVE KICHEN

cost the vendor money. Robert Johnson, an authority on software support at Dataquest, the market research firm, says a tidal wave of customer complaining is beginning to build. "The problem will get worse over the next few months as users start trying to do new things with their computers, like install new software or upgrade the hardware," says Johnson.

Multimedia, a prime reason for the recent boom in computer sales, is a particular trouble spot. Sound cards, CD-ROM drives and souped-up video are temperamental and prone to conflicts with other hardware elements and with the software.

Johnson's research shows that a consumer calling a typical software support line at midday has an 85% chance of hitting a busy signal—that is, only one call in seven goes through. "The companies we survey say they have a 95% call-closing rate, but what they don't tell you is four out of

five callers never get through in the first place."

In the past year, calls to third-party support lines have doubled, to 100,000 a month, estimates Johnson. Dell's Stephen Smith says his call volumes are up sharply in response to the industry's strong Christmas season.

Put it this way: Technology is on a collision course with marketing. The PC market demands faster chips, bigger screens, more memory and fancier software. But these gadgets have far outstripped the technical competence of the typical user.

Computer technology is a victim of its own successes. (Gordon) Moore's Law says that semiconductors double in complexity every 18 months. But semiconductor prices are almost constant. Over 20 years, that means a given level of computing is 10,000-fold cheaper. Cheaper—and far more vulnerable to bugs and gremlins.

Imagine a world in which a Boeing 737-500 has come



down in price from \$35 million to \$3,500. You can get one at any Wal-Mart and take it home. But it's no less complicated to fly, no less complicated to maintain. If something goes wrong, there are no mechanics standing by to help you. You are expected to fix the problem yourself, after calling tech support.

That's just about what has happened in the computer industry. You come home with a 166-million-instruction-per-second monster, controlled by an operating system with 3 million lines of code, and if something doesn't work you are expected to fix it yourself.

A generation ago that kind of computer power would have resided in a multimillion-dollar mainframe, sold by IBM with a markup that amply covered the costs of an army of technicians who made house calls. Don't try to get your discount mail-order vendor to make a house call.

The irony of the PC business today is that the more powerful and sophisticated the technology gets, the more likely it is to be in the hands of a novice. The original Apples went to nerds, the early IBM PCs to corporate buyers. Contrast: In the last quarter of 1994, more PCs based on Intel's top-of-the-line Pentium microprocessor were bought by consumers than were bought by businesses, says Seymour Merrin, president of Merrin Information Services in Palo Alto, Calif.

Early automobiles were similarly complicated, but at the turn of the century most drivers either were mechanical or hired people who were. Before the automobile could become a mass phenomenon, a whole vast network of garages, mechanics and service facilities had to be created. For personal computers that network is just coming into

"Some groups have installed punching bags so their techs can go smack the hell out of it."

stumped. She called Adobe, where a technician told her to go through the file looking for the character sequence "%CMYKCustomColor" and type in a correction. "Now why didn't I think of that?" muses the Mac owner, who spent ten hours of his own on the problem and probably burned up \$100 worth of the expert's time.

The great virtue of the IBM design, now used in 85% of all personal computers, is that it accommodates competitive suppliers for each part or piece of software. A manufacturer may be little more than a screwdriver assembler of other people's components. That virtue is also the Achilles' heel of PCs.

What if your computer comes from Dell, your fax modem from U.S. Robotics, your printer from Hewlett-Packard, your CD-ROM drive from NEC, your operating system from Microsoft, your memory manager from Quarterdeck Office Systems, your word processor from Novell and your spreadsheet from Lotus Development?

When something goes haywire, any one of these eight suppliers can point a finger at the other seven. If you bought the machine from a friendly retail store—with all these parts and programs preinstalled—you might succeed in taking it back. But in the far more likely event that you added at least some features after opening the box, you can't fix the blame. You simply start calling all of the suppliers, hoping you can identify the one at fault.

We know one user who discovered that his favorite multimedia titles were running slower and slower, creating infuriating pauses between bars of music. A friend, expert in computers, tried to help: "Delete all the temp files in your DOS subdirectory and run the Microsoft SCANDISK utility to clean up cross-allocated files and lost chains of your hard disk," the expert said. Whatever those were.

being. Vendor-independent service companies, such as Software Support Inc. of Heathrow, Fla., sell service via prepaid and pay-as-you-go plans.

Meanwhile, you go to your manual. If your ProComm Plus modem software doesn't work, the ProComm manual solemnly instructs, merely dial into CompuServe and go to the Procomm online support group. Argh!

One artist we know was stumped to find an error message every time he tried to open an Adobe Illustrator file on his Macintosh. The problem occurs out of the blue and is well known in the graphics art world as a bug in Adobe's program. The artist called in an expert versed in Macintoshes. The expert was

To the rescue!

WE DECIDED to play Good Samaritan for a week. We went looking for desperate computer users who couldn't get their machines to run, and solved their problems.

Most of the answers came from technical support centers. Our experience: By and large, these experts know their stuff; it's just getting through that will try your patience.

My five-year-old computer is dead. I turn it on and nothing appears on the screen. I've checked the power cord.

Open the machine and disconnect the clock battery. Go to Radio Shack and buy another one (\$11).

I bought a Compaq Presario 520 for the family for Christmas. It came with a Compaq "front end" called TabWorks that hides Windows and makes the Presario easy for kids. Too easy.

One day a friend of my daughter's was trying to save a drawing, something went wrong and TabWorks went poof. We called Compaq and spent 16 minutes holding and pressing choices on phone menus. Then we were connected to a technician who heard only a few words before interrupting with, "I'll bet this is a DEFAULT.TWF problem."

He was right. The daughter's friend accidentally corrupted this file, which controls each user's custom desktop. Solution: Erase the corrupted file. Locate the backup copy, called DEFAULT.BAK, in the TabWorks subdirectory. Make a copy of the backup, calling it DEFAULT.TWF, and leave it in the TabWorks subdirectory.

In the future, be careful to exit TabWorks and Windows before turning the computer off.

I wanted to import a spreadsheet from Lotus 1-2-3 for Windows into an Ami Pro 3.0 word processor document. I got a "general protection fault." What's the matter with these people? Lotus and Ami are made by the same company!

In the good old days, you could store a .WK1 spreadsheet from 1-2-3 version 2.3 and then painlessly

merge it into an Ami Pro document. Trouble is, your new version of 1-2-3 for Windows stores spreadsheets in the .WK4 format. Your version of Ami Pro came out before .WK4 was invented.

Lotus Development Corp. offers this solution: Go to a software retailer and pay \$20 for the Ami Pro 3.1 upgrade.

If you don't like that idea, try this: Use an option in your new 1-2-3 program to save files under the former .WK1 format.

Lotus also offers, at no charge, a more complicated end run of the problem. To get it, call Lotus at 508-998-2500 and request document #9361010.

I have a Hewlett-Packard 486 PC at a school where I help out with computer



stuff. A pack of eighth-graders decided to change the video driver under Windows Setup. They switched from the generic VGA driver supplied with Windows to a 1024x768 Super VGA driver with 256 colors. When they rebooted, the computer went nuts. I can't get it to respond to anything. Did you make a rescue disk before this happened? (See box, p. 103, item 3.) Thank goodness!

Reboot the computer from your rescue disk. You're now in DOS, the operating system underlying Windows. Go into the Windows directory

on your hard drive and type SETUP. Press ENTER. Then use arrows to select a "VGA" display.

I use Phoenix Technologies Eclipse Fax 6.0b. Whenever I add a new recipient to my fax phone directory, on the first attempt to send a fax the program drops the "1" before the area code and I have to abort.

Go into the dialer setup. Check the "Automatic Area Codes Enabled" box, check the "Enable Carrier Dialing" box, make sure the local prefix is blank and place a "1" in the "Long Distance Prefix" box. Also, don't fail to enter your own area code in the box for that purpose.

I wanted to soup up the video card in my 486/33 PC. I ordered the ATI Graphics Expression 2-megabyte DRAM VLB card from a mail-order outlet.

The ATI card was nothing but trouble. My computer kept locking up and freaking out. An ATI technical rep had me strip out all non-necessary cards out of the PC—e.g., sound card, CD-ROM card—and run a stripped startup configuration. The card still locked up the computer so the technical rep suggested that there was probably something wrong with the card.

I went back to the mail-order house. They persuaded me to try another brand of video card, the Number Nine Computer Corp.'s #9GX64.

The new card didn't bomb out my computer, but I couldn't get its video drivers for my monitor to run properly in Windows. I went to a bulletin board maintained by this manufacturer and downloaded updated drivers. The card still didn't work right.

Then I called Number Nine's technical support. What a joke! I listened to piped-in Beatles music for a half hour. Finally I was connected to someone who offered to put disks containing updated video drivers in the mail. They never came.

Don't upgrade your computer. Buy a new one.

—D.C.C. ■

No good. Two hours wasted.

The victim turned to another expert acquaintance, who runs a corporate PC department. "Print out copies of your CONFIG.SYS and AUTOEXEC.BAT files and let me study them," this fellow said. Another dead end.

Cursing the manufacturer, the customer finally got through to a human being in technical support. She listened patiently, eventually eliciting the fact that a 3-year-old lived in the household. Her diagnosis was right on the money: smudges on the CDs.

Every box sold today contains the potential for dozens of such hiccups, many of which will occur long after the machine has been sold. These are unbooked liabilities for the vendors. Each call costs the company \$25 to \$50, according to tech support expert Blaisdell. A complaint mishandled is a future sale lost.

The computer makers know this. They are trying to cope. Microsoft's new Bob application guides novices through the system with animated characters. Nice, but Bob doesn't know that you need to build a boot disk to get the helicopter simulator, Comanche CD, to play. It especially doesn't know about searching Adobe files for % character sequences.

The next version of Windows, promised for shipment sometime this year, will feature a technology known as "plug and play." That's supposed to mean that upgrading the machine is as easy as plugging in a new speaker for your stereo. Microsoft, clearly, is aware that user headaches are a serious threat to its long-term marketing efforts.

Windows—and before it Apple's Mac software—was certainly a step in the right direction. Before, if you wanted to add new software you had to modify your AUTOEXEC.BAT and CONFIG.SYS files. These are the control panels for DOS, the original operating system for IBM-compatible machines. They were a bit arcane, but they were only a few lines long. You'd follow the instructions for the new software and change a line or two, as necessary.

Windows didn't do away with these control files. Rather, it hides them. If all goes well, fine. But when something crashes—or if you merely want to prepare for the day when

"The weather had turned cold and his customers needed propane. The technology had failed him. He was ballistic."

something crashes—then you may have to tangle with them (*see box, p. 103*). Ease of use comes at the expense of underlying complexity. Now the control files are longer than they used to be and there are more of them. Michael Maples, executive vice president at Microsoft, says the new version of Windows will involve 10 million lines of code, three times as many as the last version.

Jim Collas, vice president of customer support at Gateway 2000, lays blame on the 14-year-old design of the original IBM PC, still the basis for the entire IBM-compatible industry. When the first PC came along, things like multimedia were still in the distant future. "Multimedia has created a very significant increase in support requirements," says Collas. "Sound cards and CD-ROM drives represent the maxing out of the old PC architecture. As we

began to handle an increase in calls brought on by that technology we also got hit with an increase of software suppliers decreasing their support to the customers. Then the consumer market got bigger."

Will complexity and difficulty of use kill the PC boom? Probably not, but it will almost certainly reduce the number of players. Vendors that compete only on price will lose ground to

those that charge a little more but do a better job of customer support.

A survey published in November in *PC World* rated PC vendors on service and reliability. Apple, AT&T (NCR), Compaq, Dell and IBM rated high. The worst were IBM's since-discontinued Ambra line, Comtrade, Cornell and Insight. Gateway 2000 was ranked below average in reliability but above in tech support. Packard Bell ranked among the worst in service but average in reliability.

Perhaps it will become routine to buy a \$2,000 multimedia box, then sign on for \$1,000 of professional help in maintaining it. Swamped with help calls, Microsoft now charges callers \$2 a minute (via a 900 number) to cut to the front of the line. Other software vendors are doing the same. This is the beginning of a probable future unbundling of products and product support in computerdom.

But—and in this we willingly risk sounding fuddy-duddy—maybe the PC has been somewhat oversold at its present stage of development. Hey, do you really need that quadruple-speed CD-ROM Pentium PC to educate your kids and to keep yourself from becoming obsolete? For business, for industry, for communications the computer has become indispensable, but, novelty aside, are multimedia and Internet really that essential to most people's daily lives? There's still a lot to be said for opening a book or a magazine and staying current the Gutenberg way.



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INTERNATIONAL  PAPER
We answer to the world.

With every international financial crisis there is yet another opportunity for the bureaucrats at the IMF to justify more socializing of speculators' risks.

Bob Rubin, meet C.N. Parkinson

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

THE MEXICAN PESO debacle of Dec. 20 caught the International Monetary Fund asleep at the wheel. Indeed, the IMF's early warning system completely failed to detect trouble on the horizon.

It didn't take the IMF Hydra long to wake up, though. The fund's managing director was quick to spin a tale to justify—you guessed it—more money and more power for the IMF. Not surprisingly, Michael Candessus' vision was supported by Bill Clinton's new Treasury Secretary Robert Rubin.

All this lobbying activity caused me to pull *Parkinson's Law* (1957) from my bookshelf. In this classic we find that the British Admiralty augmented its personnel by almost 79% from 1914 to 1928, even though the number of combat ships under its command fell from 62 to 20 and total crew personnel declined by almost one-third.

As clever as the British Admiralty was, its record of self-promotion can't hold a candle to that of the IMF. The IMF was established as part of the 1944 Bretton Woods Agreement. Its primary purpose was to extend short-term, subsidized credits to countries that were experiencing balance-of-

payments problems under the Bretton Woods exchange rate system. These credits served to finance foreign exchange interventions, in the hope that competitive devaluations and trade frictions could be avoided.

When the Bretton Woods system collapsed in 1973, it seemed that the IMF would likewise fall. Its original justification no longer existed. The IMF had become an empty shell. One of my mentors, Professor Jürg Niehans, the distinguished Swiss economist, thought the IMF's passing timely because he had demonstrated that the IMF's lending activities had been unnecessary and even counterproductive.

The obituary was premature. The 1973 OPEC oil embargo allowed the IMF to reinvent itself. More lending was "required" to cushion the oil price shock. And more lending there was: From 1970 to 1975 IMF lending more than doubled in real terms. Assisted by the second oil shock of

Despite the rhetoric about financial meltdown, the truth is that the IMF will be bailing out investors.

1979, the IMF kept pumping out new cushioning loans into the early 1980s, albeit at a slower rate. From 1975 to 1982 loans increased by another 58% in real terms.

With the election of Ronald Reagan in 1980, it looked as if the glory days of the IMF might come to an end. The Administration favored a restrictive course for IMF lending. The Mexican debt crisis of 1982 changed all of this. The IMF Hydra moved quickly to argue that it should provide more lending in order to

avert an international financial crisis.

Remember, the IMF charter contains no provision for such lending. But never mind. The IMF scored again. Indeed, Ronald Reagan proclaimed that he had personally lobbied 400 out of 435 congressmen to obtain approval for a U.S. quota increase for the IMF. The IMF put those new funds to work at once. From 1980 to 1985 IMF lending increased by 27% in real terms. The lending was, of course, little more than a bailout of foreign banks that were overexposed in Latin America.

This brings us to today's Mexican peso crisis. To justify more lending and additional powers, the IMF Hydra has shown us yet another head. Despite the rhetoric about saving the international financial system from a meltdown, the truth is that the IMF will be bailing out investors, mostly Americans, who have speculated in Mexican stocks and bonds. No wonder the Europeans are less than enthusiastic.

It's time to take a serious look at the IMF's operations. This is not an easy task. To protect itself from outside scrutiny, the ever-secretive IMF makes its adjustment programs with debtors confidential. This secrecy serves the IMF well because it conceals the ineffectiveness of the conditions it claims to impose upon its borrowers.

Evaluating the IMF will, therefore, take a while. In the meantime, there is no need to pump any more money into its coffers, which are lined with hidden reserves. The IMF holds 103 million ounces of gold, which it values

at \$51.50 per ounce, for a total book value of approximately \$5.3 billion. At today's market prices, the IMF gold hoard is worth almost \$39 billion. This amounts to a cool \$33 billion in hidden reserves. Consequently, there is no good reason for Congress to succumb to the IMF panhandling.

For all its posturing as the savior of free markets, the IMF is nothing more than an interventionist monster for socializing risks. Let investors take their own risks for a change. ■



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To earn some extra cash, Anne Beiler took a part-time job managing a pretzel stand. That was the easy part of starting her chain.

Pretzel queen

By Marc Ballon



Auntie Anne's founder Anne Beiler
Faith kept her going.

LIKE MANY PEOPLE who start businesses, Anne Beiler is a late-blooming entrepreneur. Raised in a Mennonite farmer's household in the village of Gap, Pa. (pop. 2,000), she married when she was 19 and spent the next 19 years raising her two children.

By 1987 Beiler was 38 and restless. To bring in some extra cash, she took a weekend job managing a food stand at a farmer's market in Burtonsville, Md. It was a two-hour drive away, but the job brought in \$200.

Beiler does not have a college degree, but she has something much more valuable: in her words, "common sense." She noticed that the fastest-selling items at the food stand were large, hand-rolled pretzels that sold for 55 cents each. Not bad for 7 cents' worth of flour, water, yeast and

salt. When a stall at a farmer's market closer to home, in Downingtown, Pa., became available, Beiler decided to try the pretzel business herself.

Borrowing \$6,000 from her father-in-law, she bought an oven, dough mixer and refrigerator, and opened a 12-by-20-foot stand in February 1988. She called the place Auntie Anne's, after the nickname given her by her two dozen nieces and nephews.

That was the easy part. The hard part was making a tasty pretzel, something that Beiler's pretzels, made from a friend's recipe, weren't. "They tasted really bland," she says. Her customers agreed. Beiler sold only about \$350 worth of pretzels each

weekend. Her gross margins barely paid her \$250 rent for the stall. "If I had lacked faith, I would have stopped then and there," she says.

Instead of quitting, Beiler fiddled with the recipe and finally came up with a softer, sweeter pretzel. "We were not able to bake them fast enough," Beiler says. Within a few months, pretzel sales had more than quadrupled, to \$1,500 a weekend.

After accumulating \$5,000 in capital, in July 1988 Beiler opened a second stall, at the farmer's market in Harrisburg, Pa. Early the following year one of her brothers, Jack Smucker, a construction manager, convinced her to sell him a franchise for a third Auntie Anne's shop, Middletown, Pa., for \$2,500.

If a brother was interested in a franchise maybe others would be, too. That year Beiler sold 10 franchises at prices ranging between \$2,500 and \$5,000 apiece—and quickly learned that she was expanding her business at a rate that outstripped her resources. Beiler had tried to keep everything in the family: Her husband and brother-in-law were building all the new shops themselves; her sister was making the pretzel mix by hand; a brother made all the deliveries. Hard as they worked, the family couldn't keep up with the growth. New franchise openings sometimes fell three months behind schedule; production and delivery bottlenecks developed.

To the rescue came another brother, Carl Smucker, a building contractor who knew something about finance. He joined Auntie Anne's and soon imposed a six-month moratorium on new franchises. But his real contribution was realizing that he, too, was over his head. Then Smucker brought in professionals: Francorp, an Olympia Fields, Ill.-based franchise consulting firm.

Francorp consultant David Hood made several suggestions, including increasing the franchise fee to \$15,000 from \$7,500 (it's now \$28,000) and rewriting the franchise agreements to prevent franchisees from selling pretzels to supermarkets and convenience stores—a problem that was diluting the product's image.

Beiler was impressed and in 1990 hired Hood full time as her director of franchising. That year Auntie Anne's

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added 43 stores, mostly in Pennsylvania, New Jersey and New York.

Today Beiler's mini empire consists of 273 pretzel shops—all but 17 franchised—in 35 states. They operate 11 hours a day (6 hours on Sundays), seven days a week. Beiler has extended her line and has increased her prices. Auntie Anne's pretzels, in ten flavors: garlic and sesame among them, sell for an average of \$1.25 each.

Last year the company earned some \$350,000 pretax on revenues (including franchise fees, royalties and its own pretzel sales) of \$8 million; revenues should rise to \$10.7 million this year. Systemwide sales totaled \$5 million last year. Some 75 new stores all but one of them franchises, are expected to be added this year.

To manage all this, Beiler has

**"Things really don't matter.
But I might just get
another Cadillac."**

brought in more professionals. To handle everything from marketing to distribution and store support while Beiler herself concentrates on making sure new franchisees get off to a fast start. For example, when a franchise at a suburban Detroit shopping mall wasn't doing well because of a poor location in the mall, Beiler sent her marketing director out with an attention-getting mobile pretzel cart offering samples that helped bring in customers. A larger pretzel wagon was later added at the other end of the mall. The franchise's sales have since doubled.

Trappings of success? Beiler recently treated herself to a new \$36,000 Cadillac El Dorado, but by and large her material lifestyle hasn't changed much since she started the business seven years ago. She notes the company gave \$150,000 last year to various charities, and that out of their earnings she and her husband are now writing a local marriage counseling center for the village of Gap.

"Things really don't matter," she says earnestly. But with a twinkle in her eye, she adds, "But I might just get another Cadillac in a couple years."

HILLSDALE COLLEGE



Bill Stallings is in a rush when it comes to expanding his used-car finance firm. But his foot-dragging when it comes to computers could trip him up.

Computer-phobe

By Amy Feldman

"IF EVERYTHING WORKED real perfect, it wouldn't be any fun anyway," drawls William Stallings. By that measure, Stallings must be having a lot of fun.

Stallings, 55, is founder and chief executive of Greenville, N.C.-based Regional Acceptance Corp. It's a \$117 million (assets) lender-of-last-resort to North Carolina's used-car buyers, and a very profitable one: Last year Regional, which lends money at an average rate of 21%, posted earnings of \$7 million, or 70 cents a share. This was a 7.2% return on average assets, even as rising interest rates squeezed spreads. Stallings, who took his company public nearly two years ago, and his family own 39% of Regional's equity, a stake recently worth \$39 million.

Lending money and getting it back is a business Stallings knows intimately. The son of a Johnston County, N.C. tobacco farmer, Stallings worked his way through Western Carolina University. Upon graduation he took a job as an "adjuster" for a finance company, knocking on doors at dusk to collect loans and late fees. In 1978, at age 38, he borrowed \$250,000 from Chicago's Walter Heller Co.—now Heller Financial—and started Regional Acceptance.

His timing was awful. In 1980 Paul Volcker pushed the prime rate to 21.5%, and Regional's cost of funds rose with it. North Carolina's usury laws capped Regional's rates at 29% for cars that were five or more years old—the spread was hardly adequate to cover the inevitable deadbeats. Yet even with these forces working against him, Stallings eked out \$17,000 in pretax profits in 1980. Gut instinct for making the right loans, Stallings explains.

Over the years Stallings has opened



The Stallings sons (left to right):
Clark, Blake and Jeff

**All three work for dad's company.
But the eldest, namesake Billy,
quit suddenly last summer.**

20 branches, most of them in small tobacco towns near Greenville. His customers are traditional lenders' rejects, so in each town Regional's branch managers must perfect the subtle art of determining who is most likely to keep paying annual rates of 20%-plus. Stallings favors borrowers who have lived in their towns all their lives, on the fairly obvious hunch that if they default they're unlikely to move, meaning Stallings can repossess their cars.

Bald, rich and imposing at 212 pounds, Stallings presides over Regional Acceptance from a plain wooden desk that is clear but for a lone mechanical adding machine. "I'm just old-fashioned," he drawls. But he also wants to expand Regional's branch count to 110 and its asset base to over \$1 billion by 2003. This will put him into increasing competition with much larger rivals like Mercury Finance and AutoFinance Group. Already he faces tougher competition

Regional
Acceptance Corp.
founder
William Stallings
**"If you got 20
stores, you're
going to have
one that gets
out of whack."**

with his recent expansion to Raleigh, Winston-Salem and Greensboro.

In pursuing this growth, Stallings faces a major disadvantage: He is, says his son Clark, the Greenville branch manager, "computer-phobic." That is readily apparent to any visitor to Regional's offices. The firm tracks the details of its 30,000 loans (worth more than \$100 million) on hard-

Photographs by Terry Parke



continuing to drop. Each percentage point rise in the cost of capital cuts Regional's net profits by around \$500,000, or 5 cents a share.

Last September Stallings agreed to spend \$500,000 to set up an IBM AS/400-based companywide computer system. But it won't likely be running well for months to come.

Other problems may be lurking. Short-sellers have been swarming over Regional stock—the short position recently was some 480,000 shares. The shorts think Regional's rapid expansion—its loan portfolio increased 74% last year—is hiding

Sighs Chief Financial Officer Robert Barry:

"We have no way to slice and dice data."

credit quality problems. Although Regional's allowance for bad loans, 2% at year-end, appears low by industry standards, it was still double the rate of well-run Northbrook, Ill.-based Mercury Finance Co. (*FORBES*, Sept. 13, 1993).

One sign of trouble: At year-end loans 90 days past due were \$1.5 million, or more than double the previous year's \$673,000. That means that the bad loans, while still quite low, grew at a faster rate than the portfolio as a whole.

Last fall Stallings fired Regional's branch manager in rural Washington, N.C. after a third-quarter charge-off of \$459,000; this was more than the first two quarters combined, and much of it was attributed to the Washington branch. Stallings shrugs it off: "If you got 20 stores, you're going to have one that gets out of whack."

Less easy to dismiss is the fact that last summer Stallings' eldest son, 30-year-old William Stallings Jr., quit unexpectedly as manager of Regional's Greenville office and resigned from Regional's board. He has since hired on with another small Southern lender. Regional's Nasdaq-traded shares fell 16%, to 13½, on the news of his departure and have since drifted down to a recent 12½.

What happened? "It's a family matter," says Stallings Sr., tersely. ■

written ledger cards filed in plastic bins under headings like "on time," "promised to pay" and "repossessed." Without powerful computers, Regional lacks the ability to track things like the number of defaults by car dealer or even to analyze its portfolio on a daily basis—standard practices in the finance industry. Sighs Chief Financial Officer Robert Barry: "We have no way to slice

and dice data."

Already, Regional's inability to use computers to easily analyze and track its loan portfolio has delayed—twice—an announced plan to securitize its loans. Without securitization, Stallings is racing against rising rates. The company's spread has fallen from 16 percentage points in the first quarter of 1994 to 14 in the fourth, and is



Partnerships In Engineering Excellence

Heidelberg Harris and Parker Hannifin: Making Printers' Dreams a Reality

Ever since Johann Gutenberg invented moveable type in the 1400s, printers have sought to expand human communications while simultaneously reducing the cost of the printed word. In 1992, that pursuit took a quantum leap forward with the introduction of the M-3000 Sunday Press, the latest in a long line of innovations by famed press-builder Heidelberg Harris.

gap shock that causes streaking; a shaftless drive system that lessens vibration and paper breaks; a sophisticated folding system that provides the versatility to handle a range of jobs.

Parker Hannifin technical specialists, working closely with Heidelberg Harris purchasers, engineers, project managers and shop-floor personnel, were able

to eliminate about 300 fittings from pneumatic and lubrication system designs from previous presses. Parker also devised a system of components that simplifies assembly of the giant press and slashes labor by two-thirds.

Its performance is revolutionary. The M-3000 Sunday Press can tackle any high-volume printing job — catalogs, magazines, directories, promotional pieces or annual reports. In fact, the Sunday Technology platform has so changed the direction of the printing industry that the M-3000 received GATF's coveted 1994 InterTech Award for product innovation, as well as the British magazine *Print Week's* Print Production of the

Year Award for 1994. Clearly, Heidelberg Harris has reasserted its technological leadership, paving the way to the 21st century.

Heidelberg Harris characterizes the Sunday Press as a "work in progress." Competitors are attempting their own versions of the patented press, but the company keeps striving to improve the pacesetter product. Parker Hannifin continues to help the press-builder target areas where improved design and more savings can be made.

Partnerships with manufacturers such as Heidelberg Harris are commonplace for Parker Hannifin and are among the chief reasons for its preeminence in motion technology, components and systems. Parker serves more than 200,000 customers in more than 1,200 markets. To be close to its customers, Parker Hannifin operates some 200 manufacturing plants and administrative offices worldwide and supports more than 4,500 distributors.



Providing assistance was Parker Hannifin, the world's largest manufacturer of motion-control components and systems. Parker Hannifin helped Heidelberg Harris develop state-of-the-art motion-control systems, the kinds that assure precision in an industry requiring the most demanding manufacturing tolerances.

The idea for producing a press to greatly advance printing technology began on a wintry day in January 1986, in a château outside Paris. Two dozen Heidelberg Harris managers gathered to brainstorm about a press that could run up to 50% faster and produce better quality work than the company's fastest existing presses. To keep their ideas secret, they code-named the project the "Sunday Press," after the Super Bowl Sunday the meeting was convened.

The resulting press was not only as fast as they envisioned, but incorporated design innovations to shrink downtime and reduce paper waste. Among the innovations: a new gapless cylinder that eliminates the



Parker helps Heidelberg Harris achieve printing leadership

When printers buy a state-of-the-art printing press, they buy the whole press maker: engineering, assembly and service. That's one of the reasons for the continuing success of a long-time leader in printing presses, Heidelberg Harris, and of its president, Bob Brown.

Bob joined the predecessor to Heidelberg Harris straight out of school as a design engineer and rose quickly through product support, manufacturing, and

service. So he knows the importance of each to customer satisfaction. He also knows the importance of a valued supplier like Parker Hannifin.

Parker motion-control technology is a part of nearly every printing press Heidelberg Harris makes, including the revolutionary new M-3000. Parker joined the development team of the M-3000 in the early stages. By working closely with every level of production, Parker was able to design new

lubrication and pneumatic systems as well as assembly techniques that lowered costs and improved reliability.

Partnerships like this have helped make Parker a worldwide leader in the motion-control industry. For more information, write for our annual report: Parker Hannifin Corporation, Dept. FB-27, 17325 Euclid Avenue, Cleveland, OH 44122-1290. For product information, call 1-800-C PARKER (1-800-272-7537).

A partnership in vital technologies



PH-NYSE

Vacations are one thing, but don't try running a business from the deck of a racing sloop.

Why Warren Luhrs gave up ocean racing

By Philippe Mao

FANTASY: You get your business working so well that you can leave the office for months at a stretch to pursue life's other pleasures.

Rude awakening: The business falls apart while you're away.

Warren Luhrs lived the fantasy and woke up to the nasty reality. In 1969 Luhrs, now 50, and his older brother John, 59, started a boat-building company, Silverton Marine, in Millville, N.J. Boat-building was in their blood: Their great-grandfather was a ship's chandler near what is now New York City's South Street Seaport. Their father developed a sea-skiff motorboat line, which he sold to Bangor Punta in 1962.

By 1980 the Luhrs boys were selling \$35 million a year worth of powerboats (sold under the names Silverton Marine and Mainship Motor Yachts) and sailboats (under the Hunter Marine name, built in Florida). Their relatively rapid success led Warren Luhrs to indulge his passion for sailing. Figuring he could delegate responsibility for running the business to others, he began entering ocean sailing races that kept him away from work for months at a time. He could have had sales and other reports sent to him but chose not to. "I didn't bother," he confesses.

Suddenly he woke up. When Luhrs returned from a record-breaking 80-day sail from New York to San Francisco via Cape Horn in 1988, he

Warren Luhrs of Morgan Industries

A critical marketing survey wasn't pleasant reading. "It was so depressing it made me cry."

David Carter



discovered that sales were dropping, dealers complaining about quality in the boats being turned out by a new team. A number of Luhrs' best employees had quit. Brother John didn't see the problems in Florida because he was running the powerboat divisions in New Jersey.

More bad news. A market research firm hired to survey the damage reported that not only was Hunter Marine losing market share to its biggest U.S. competitor, Catalina Yachts, but was also doing a poor job of servicing the customers it did manage to

retain. "I remember reading the report," says Warren Luhrs. "It was so depressing it made me cry."

Wiping his tears, he tossed out his manager and retook the helm. Luhrs revamped his customer service operations—installing, for example, an 800 number for questions and complaints, increasing the warranty to five years from one year and asking clients what features they'd like to see on future Hunter Marine models. To spur sales Luhrs began discounting his basic 19-to-25-foot boats by 10% to 15%, figuring new customers would later trade up to larger, higher-margin Hunter Marine designs.

Just when the company's fortunes were poised to recover, in January 1991 Congress slapped a 10% luxury tax on boats: Owners paid tax on the amount that exceeded \$100,000. This piece of class warfare legislation scuttled the U.S. pleasure boat industry, already mired in recession; industry sales dropped from \$18 billion in 1988 to under \$11 billion in 1991. The Luhrs brothers' sales plunged from \$140 million in 1987 to under \$80 million.

But now Luhrs had a grip on his problems. After setting up a holding company, Morgan Industries, in May 1991, he brought in a tough new general manager who helped centralize purchasing, cutting the 1,200-

person work force by a third, and turning Hunter Marine into the number one sailboat maker in the country.

In August 1993 Congress repealed the luxury tax. This plus a strong economy helped pleasure boat sales recover. Morgan Industries' sales last year hit \$135 million, and earnings were around \$8 million, a rebound of some 70% from 1991. By comparison, the industry overall has bounced back only 33% since 1991. Warren Luhrs says Morgan's surging cash flow will finance a new lightweight, high-performance family sailboat he has on the drawing board, as well as a

Returning from an 80-day sail, Warren Luhrs found his company in deep water.

fuel-efficient trawler-style cruiser that brother John hopes to introduce sometime next year.

In Warren Luhrs' office is a pair of muddy leather work shoes that had belonged to his father. Beneath them is a plaque inscribed: "Keep your feet on the ground." Without missing the irony, Luhrs points to the plaque and promises he won't be planning any more extended sailing trips for a while.

Jonathan Levine



Morgan's John Luhrs
Overseeing the making of some 700 powerboats a year.

Germans talk of the need to encourage technology firms and create jobs, but their treatment of entrepreneurs sends a contrary message.

The Americanization of Matthias Zahn

By John H. Christy



Patrick Labarre

WHY DOES EUROPE lag the U.S. in computer software development? Consider the story of Matthias Zahn and his majority-owned Fast Multimedia AG, of Munich, Germany.

Zahn, 37, is a physicist who founded Fast Electronic GmbH in 1985 to produce hardware to prevent illegal software copying. His Hardlock security sold well in Europe and the U.S. but Zahn soon saw greater opportunities in products that help computers process moving images.

Video Machine, a desktop video editing system developed in 1992, is now Fast's most successful product. Price: \$3,200, a bargain considering the package can substitute for over \$30,000 worth of studio equipment. Customers for Video Machine include corporate audiovisual departments, schools, hospitals and businesses like wedding videography.

At the consumer end, Fast Multimedia sells Movie Machine, a plug-card for IBM-compatibles that allows viewers to watch television on the PCs, record videos, transfer video from their camcorders or VCRs and do a few other tricks. The basic Movie Machine board lists for about \$400. Video Machine, Movie Machine and other Fast Multimedia products have won numerous industry awards, including Best of Comdex last year.

Zahn's problem: To make Video Machine compete better against its principal rival, Tewksbury, Mass.-based Avid Technology, Zahn needs to enhance his products and expand Fast Multimedia's presence in the U.S. But this requires more capital. In this regard his German domicile puts him at a distinct disadvantage.

Tidy-minded German bankers at



Robert Heimgartner

Fast's Matthias Zahn **Looking to the U.S. for equity capital for his German company.**

LEFT: The Fast Multimedia Video Machine **Fast equipment: professional-grade video editing on a PC.**

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investors shy away from entrepreneurs like Zahn. Says Holger Frommann, managing director of Berlin-based German Venture Capital Association: "In Germany there is no place for small-cap companies." Since 1990 there have been 271 initial public offerings in the U.S. just of small computer hardware and software companies. Total IPOs in all industries for Germany: just 85.

Unable to obtain the capital he needs at home, Zahn set up Delaware-based Fast Multimedia Holding and plans to offer its stock to U.S. investors, probably in September if market conditions are right. It will control the firm's Redwood City, Calif.-based subsidiary and the Ger-

Tidy-minded German investors shy away from entrepreneurs like Zahn.

man companies and their subsidiaries. Zahn will divide his time between the U.S. and Germany. Candidates to underwrite the deal: Robertson, Stephens & Co., Hambrecht & Quist and Alex. Brown & Sons.

While Zahn will move some of Fast's 130 German workers to the U.S., it is clear that most new hires will be Americans. "Capital is only one of our considerations," says Zahn. "In order to survive in this industry, it's important for us to be close to the developments in Silicon Valley." This is not good news for Germany, where unemployment is 10%.

Fast is not the first foreign computer company to be drawn to the U.S. for financial and human capital. Singapore's Creative Technology, best known for its Sound Blaster audio cards for PCs (*Forbes* ASAP, Mar. 29, 1993), raised \$58 million in an IPO in the U.S. in August 1992. Nor will Fast be the last. Says Seth Ferguson, an investment banker at Robertson, Stephens & Co. in San Francisco, the firm that took Creative public: "In many cases of foreign emerging growth companies, especially technology companies, their home market investors are simply not as receptive as here in the U.S." Too bad for them. Good for us. ■

FOLLOW-THROUGH

Turning, turning...

FARAH INC., the El Paso pants maker, was in trouble when Richard Allender took charge in 1990. As the quality of its slacks deteriorated, sales collapsed, from \$366 million in fiscal 1986 to \$140 million in fiscal 1990. To save the company Allender fired 2,200 workers, then began wooing back disgruntled former customers like Dillard Department Stores. He also bet heavily on a new line of wrinkle-free, all-cotton casual slacks. By the end of his first full year at the helm, losses were narrowing and Farah was turning the corner (*Dec. 9, 1991*).

In the fiscal year ended Nov. 4, Farah earned \$10.8 million, or \$1.16 a share, on revenues of \$243 million. But in the fourth quarter there were new signs of trouble: Earnings plunged 59%. Farah's stock, which rose to 21 $\frac{7}{8}$ last March from 8 $\frac{7}{8}$ in late 1991, has dropped back to a recent 8.

What happened to the turnaround? Competition. Big rivals have been taking away Farah business with their wrinkle-free products, supported by heavy ad spending.

In the spring of 1992 Haggard Corp. introduced a line of wrinkle-free cotton slacks and last year spent \$25 million promoting the line on national TV and in magazines (*FORBES*, Nov. 22, 1993). Then, in December 1993, Levi Strauss &

Co. unveiled its wrinkle-resistant Dockers line, accompanied by a \$25 million media blitz.

But Farah, says Allender, has not had the resources to spend on national advertising. He sighs: "With an ad campaign two years ago, there's no telling what would have happened. You work with what you have."

Allender, now 49, is fighting back with a new strategy: supplying private-label wrinkle-free pants to customers like Wal-Mart and County Seat. Private-label business doesn't require heavy ad spending; this helps Allender finance two new plants—in Mexico and Costa Rica—that will begin producing wrinkle-free cotton later this year.

Todd Slater, a retail and apparel industry analyst at UBS Securities, expects Farah's earnings to slip to around 85 cents a share in fiscal 1994 but then recover to as much as \$1.30 per share in 1996 on the strength of its private-label business. But this doesn't mean Farah is out of the woods. With its stock now trading below its \$8.44-per-share book value, rumors have been flying that Farah might be acquired by Oxford Industries, which makes shirts for Tommy Hilfiger and for Farah, is frequently named as a likely suitor. Allender's response to the takeover rumors is a terse "No comment." —DAVID S. FONDILLI



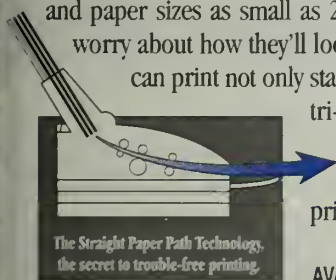
Farah Inc.
Chief Executive
Richard Allender
Strapped for cash, Farah couldn't match the huge media blitzes of rivals Haggard and Levi Strauss.
"You work with what you have."

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Introducing the Brother HL-600 Series Laser Printers, with exclusive Straight Paper Path Technology that sets a new standard in quality and value.

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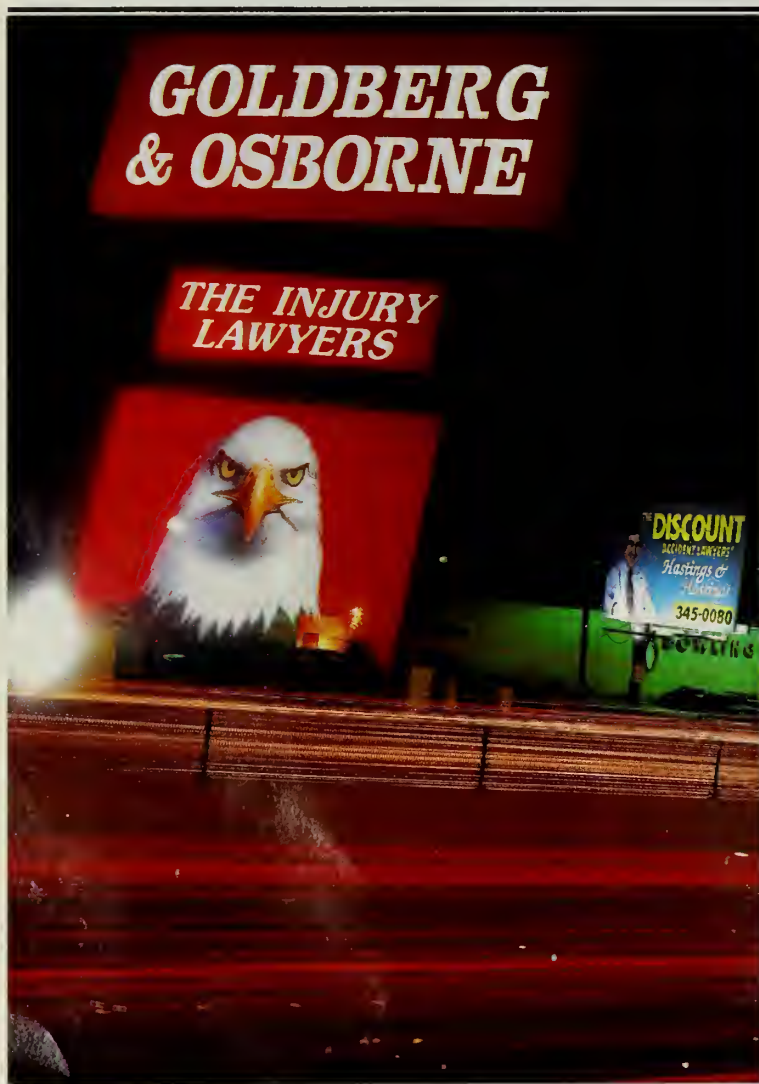
LINCOLN

What A Luxury Car Should Be

Pete Wilson has made giant strides in reforming California's workers' compensation system, but state programs this corrupt can't be turned on a dime.

"The system was spinning out of control!"

By Damon Darlin



Dan Coogan
A lawyer's billboard in Phoenix, Ariz. **Investigators snap to attention now when they see such advertising.**

INSURANCE INVESTIGATORS report stronger suspicions of mushrooming workers' compensation fraud in Arizona, Nevada, Georgia, Texas and other states with rapidly growing manufacturing job bases. Frank Hinds, a supervising fraud investigator with the Arizona Department of Insurance, says advertisements paid for by lawyers and doctors soliciting workers to come in for "free" medical examinations are increasing on busy billboards and the backs of phone books. Some of these ads are identical to ones that ran in the late 1980s in the Los Angeles area, the worker comp fraud capital of the country.

This shouldn't surprise the insurance fraud squad. Poke a snake with a stick and it'll slither off to some more hospitable place. That's what's going on in workers' comp, now that California Governor Pete Wilson is poling disability fraudsters in his state.

Wilson didn't have much choice. Shortly after he was elected in November 1990, workers' comp programs were costing the state's employers and their disability insurers \$11 billion a year, with 11% of the nation's jobs, California accounted for nearly 20% of all U.S. workers' compensation expense. Insurance premiums had almost doubled for carpenters, to \$32 per \$100 of payroll. Thousands of jobs were leaving the state every year.

Recalls Lloyd W. Aubrey Jr., director of California Department of Industrial Relations: "The [worker comp] system was spinning out of control!"

Who was driving the system to the brink? Lots of people: crooked doctors, venal lawyers, worker comp judges—or "referees"—who have grown close to workers' attorneys and often throw the game their way. Through the 1980s disability fraud mills brazenly advertised in newspapers; some even bought lists of laid-off

We've invested millions of dollars in the design of something we hope you'll never use. Ironical, isn't it?

FIRE SPRINKLERS ARE CURIOUS THINGS. Invest a lot of money and time in their design and engineering, and if you're really fortunate, they'll never be put to use. But if ever one is activated, rest assured that it's capable of preventing the spread of fire and minimizing its damage.

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DURING THE 1970s, ALLENDALE INSURANCE and Factory Mutual developed the large drop sprinkler, which greatly limits fire spread and allows customers more flexibility in the use of their warehouse storage space.



MORE RECENTLY, ALLENDALE LED THE WAY IN the research and development of the Early Suppression Fast Response (ESFR) sprinkler. This permits higher storage as well as the storage of more challenging commodities, usually without subsequent sprinkler retrofitting. Instead of just controlling high intensity fires, ESFR sprinklers can actually suppress them, normally for half the cost of any other arrangement.

AND NOW, BY INTEGRATING OUR decades of fire research with current European sprinkler designs, we have produced benchmark international fire protection guidelines. The result?

A flexible approach which permits cost-effective use of any number of technologies anywhere in the world.

ALLENDALE IS NOT JUST AN insurance company. We work to help you prevent property loss, minimize damage, and reduce disruptions to your business.

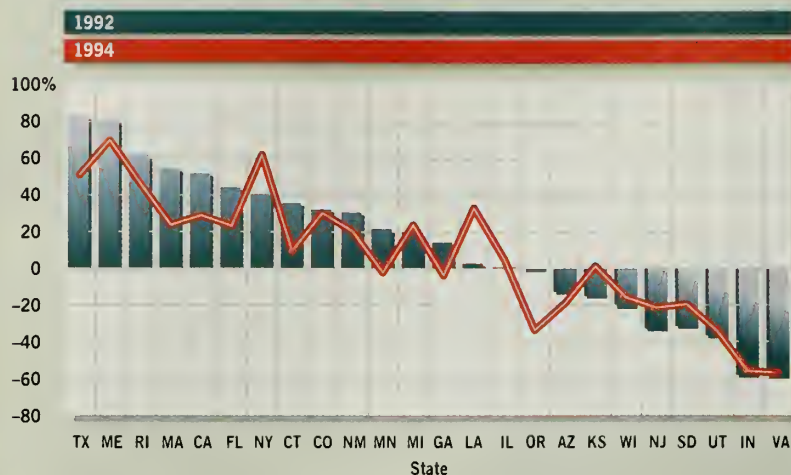
AFTER ALL, YOUR BUSINESS IS CHANGING every day. We are committed to helping you anticipate change, manage it, and to stay ahead of it.

That way, we can offer our policyholders solutions for their particular challenges.



A moving target

Percentage above or below the national average cost of payroll



Source: Actuarial & Technical Solutions Inc., Bohemia, N.Y.

After California's reforms, workers' comp costs are only 29% above a 1994 national average of \$5.62 per \$100 of payroll. But lower-cost states, like Oregon, Minnesota and Georgia, cut even more.

workers and used computers to spew out medical reports and bills on those unsuspecting workers.

But the real villains in the piece were California's lack of resolve to go after the crooks, and ultraliberal workers' comp laws. For example, employers were forced to pay for every medical disability evaluation their employees (or even former employees) sought. State law allowed doctors to charge \$1,000 and up for even a routine examination.

Vague ailments qualified a worker for disability benefits. If a worker could convince a doctor he suffered from "stress," he could collect, on average, \$11,389 in workers' comp benefits—even if the stress wasn't work-related, and even if the worker was employed only a short time. Naturally, "stress" claims skyrocketed in California from 1,844 in 1981 to 15,688 in 1991, or one out of every 1,000 workers, the country's highest rate by far.

The numbers alone suggested massive abuse, yet no one seemed to care. From 1979 to 1991 California insurance companies reported only 532 incidents of fraud, barely 41 a year, on average.

With lax laws and laxer enforcement, it was hardly surprising that sleazy operators would milk the sys-

tem. Robert E. Brennan, New Jersey's notorious penny stock hustler, found a way (*see box, p. 132*). So did Mark Kaplan. An immigrant from Ukraine in the 1970s, Kaplan was a licensed doctor who set up a chain of workers' comp clinics throughout the Los Angeles area. Promoting his services with bold TV, radio and billboard

"California was never as aggressive as we were, and we're about to get aggressive again," says Kevin Mannix, Oregon state representative.

advertisements, some of them promising jobs to the unemployed, Kaplan lured workers by the thousands. He and the doctors and chiropractors he hired would spend a few minutes examining each worker, then bill the employers' insurance companies \$1,000 or more per examination. "The volume pushing through the clinics more than covered their multimillion-dollar ad budgets," says Ranney Pageler, top fraud investigator at

Fremont Compensation Insurance.

From 1989 until 1992 Kaplan fraud mills earned an estimated \$3 million to \$50 million. Most of this was stashed in foreign bank accounts; meanwhile living in one of Beverly Hills' grandiose mansions.

To clean up the workers' compensation cesspool, Pete Wilson has had to fight the California trial lawyers and other powerful vested interests tooth and nail; but by early 1993 Wilson could point to several meaningful reforms. He eliminated a formula that encouraged doctors and clinics to overbill and push up fees each year. The single reform halved fees, saving \$30 million right off the bat and cutting much of the incentive for fraud.

Under another Wilsonian reform employers' responsibility for the cost of a worker's disability exams was limited; the employees themselves must now pay for extra medical evaluations. And workers who claim "stress" must demonstrate that the workplace was responsible for at least 51% of the stress. Stress claims are now falling 26% statewide and more than 50% in Los Angeles.

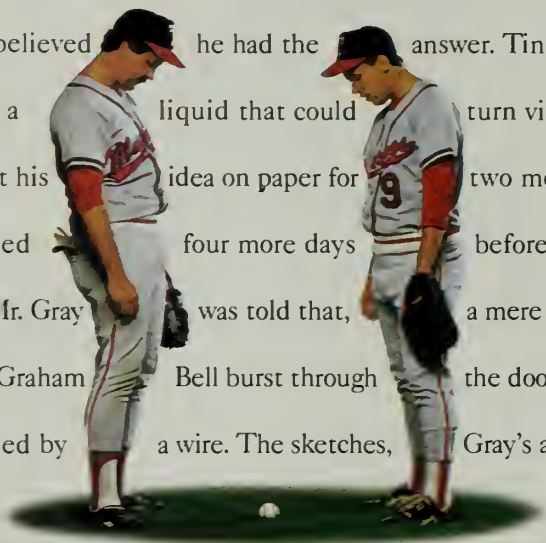
As important as rewriting the law, Wilson told his insurance investigators to start cracking down on operators like Mark Kaplan. In late 1991 authorities in Los Angeles County where most of the mills operated raided more than 300 clinics. That was the capstone of a statewide crackdown that last year alone resulted in 1,563 investigations and 363 felony prosecutions, including Kaplan. Last year he was convicted of fraud and will be stripped of \$7.5 million in assets (including the Beverly Hills mansion) and then sent to prison for eight years.

So far, so good. In the last three years \$2 billion in annual savings have been squeezed out of California's workers' comp system, bringing annual cost down to below \$9 billion. Disability insurance premiums have dropped 35% and are heading lower. Claim frequency has dropped by a third. Says James Little, president of Fremont Compensation Insurance, the nation's largest private workers' comp insurer: "There's been a dramatic and rapid turnaround."

But while progress has been made, don't think California has solved

WHY YOUR COMPETITION DOESN'T NEED YOU TO FAIL, ONLY TO HESITATE.

In early 1874, an inventor named Elisha Gray transmitted a few faint musical notes over a telegraph wire. And if he could send music, then what next? The human voice. A word. Conversation. *The New York Times* reported predictions of a "talking telegraph," and the public grew eager for it. Just one year later, Gray believed he had the answer. Tin can-like voice chambers connected by a wire and a liquid that could turn vibrations into signals. But inexplicably, he didn't put his idea on paper for two months. And after finally making a sketch, he waited four more days before he went to the patent office. When he arrived, Mr. Gray was told that, a mere two hours earlier, a school-teacher named Alexander Graham Bell burst through the door with his own sketch. Of voice chambers. Connected by a wire. The sketches, Gray's and Bell's, were identical. The two men were not.



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workers' comp problem. The disease was allowed to fester for so long that it will be years before the program can be reduced to a reasonable size. Says William Molmen, general counsel for San Francisco-based California Workers' Compensation Institute, an insurance industry-funded think tank: "No one feels the [California] legislature has done a complete job."

Consider some comparisons with states that compete with California for jobs. At about \$4.50 per \$100 of payroll, Arizona's workers' comp costs are two-thirds of California's \$7.25 per \$100 (*see chart, p. 130*). Oregon has dropped its costs 25% since 1992, to an estimated \$3.75 per \$100. A new bill now under consideration in Oregon would cut costs further by squeezing more lawyers out of the system. "California was never as aggressive as we were," says Kevin Mannix, an Oregon state representative, "and we're about to get aggressive again."

California officials boast that a basic medical evaluation costs \$500, instead of as much as \$1,500 before Wilson started cracking down. That's progress. But in New Mexico the top

price is \$111.50—and New Mexico is no paragon of low workers' comp costs. An efficient California doctor processing workers' comp cases can still earn \$1 million a year more than he could in other states, without resorting to fraud.

Another huge problem for California: lawyers. Lawyers get involved in

Poke a snake with a stick and it'll slither off to some more hospitable place. That's what's going on in workers' comp.

nearly half of all workers' comp claims. Compare this with about 21% in Michigan or 7% in Arizona. Workers' comp litigation expenses in California have been growing at 22% a year and are now nearly \$2 billion—that means around 20 cents of every dollar an employer pays for workers' comp ends up in a lawyer's pocket.

Needless to say, with \$2 billion at stake, the lawyers are fighting disability reform efforts through their trade group, the California Applicants' Attorneys Association, who share lobbyists with the California Trial Lawyers Association, a major contributor to California politicians.

If "stress" claims are no longer the gold mine they were in the 1980s, the mother lode now is hard-to-disprove "soft-tissue injuries" like carpal tunnel syndrome (supposedly from repetitive activities like typing) or reflex sympathetic dystrophy, which cause burning pain in the hands or feet. Standards of diagnosis and treatment for soft-tissue ailments are ambiguous, inviting lawyers to argue and run up bills.

The California Insurance Commission is currently tracking 76,000 suspicious workers' comp claims and watching 4,000 doctors and lawyers who have handled at least 10 suspicious claims each. Insurance companies are reporting about 650 suspicious cases a month. Sighs Gary Hernandez, the commission's chief of enforcement: "Workers' comp fraud is alive and well in California."

Like a fly to honey

AS HONEY attracts flies, so Robert E. Brennan was unable to resist the money to be milked from California's workers' compensation system. Brennan, of course, ran First Jersey Securities, the notorious penny stock firm, until he sold it in 1987. He got out after the Securities & Exchange Commission filed civil charges of fraud against him.

Brennan is currently defending himself against those charges.

In 1992 Brennan and several Los Angeles-area doctors converted a shell company called CCC Franchising Corp. into Primedex Health Systems, Inc.

Its mission: to run clinics in California.

Primedex also operates RadNet, a chain of medical imaging centers.

Brennan and Primedex were never subtle. A television ad for Primedex's "Injury Central" affiliate demanded of Los Angeles-area workers: "Are you treated like a machine at work? Machines break down." Then the ad got to the point: "Get all the medical and monetary benefits you are entitled to. At no cost to you!" A toll-free number designed to link aggrieved workers with doctors and lawyers flashed on the screen the entire time.

The stock hit a high of \$8.75 a share in mid-1992, valuing the company at over \$250 million. Says Ed-

ward Feldman, deputy district attorney for Los Angeles County's workers' comp fraud unit, referring to the fees charged for workers' comp examinations by outfits like Primedex: "It's hard to match \$1,300 for six minutes' work."

For 1992 Primedex reported earnings of \$18.5 million, on net revenues of \$24.7 million. But then California Governor Pete Wilson began cracking down on workers' compensation fraud (*see story*). For 1993 Primedex reported a loss of nearly \$50 million.

Last year, after it closed down its workers' comp business, the net loss was \$20.9 million. Fraud squad investigators raided Primedex Health offices in

California in late 1992. A Los Angeles grand jury sought more documents in March 1993.

Last June investigators raided offices in Los Angeles, New Jersey and New York looking for evidence in a broader investigation of securities and tax fraud, grand theft and criminal conspiracy.

No charges have been filed, and Primedex's lawyers deny any wrongdoing. But the case is still under investigation.

Primedex's stock now sells for less than 50 cents a share. Bob Brennan? He knows when the tides turn. Brennan agreed in principle to sell 10 million shares—26% of the company—worth about \$10 million, in August last year. —D.D.

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Baldor Electric may be small,
but it's strong for its size.

Powerhouse

By R. Lee Sullivan

WITH SALES last year of \$418 million, Baldor Electric Co. is a pygmy among giants. Baldor makes electric motors that power pumps, fans, conveyor belts and all the other automated components that keep modern factories humming. It competes successfully against much larger firms: Reliance Electric, Emerson Electric and General Electric.

But what Baldor lacks in size it more than makes up for in flexibility and profitability. Last year net income reached a record \$26 million (\$1.39 per share). Per dollar of sales, this was nearly twice as much as \$1.6 billion (revenues) Reliance Electric earned, and almost as much as splendidly managed Emerson Electric earned (FORBES, Aug. 1).

Based in Fort Smith, Ark., Baldor is one of those companies that do several things very well. "Instead of worrying about the numbers, we work to build good relationships with our employees, shareholders and customers," says Chairman Roland Boreham Jr. "If you have good relationships, you can weather the bad times."

Union-free Baldor hasn't laid off

any workers at its main plants since 1962—and Boreham wasn't about to break that record when the 1991 recession arrived. As Baldor's customers started shutting down their factories, Boreham used the slack time to increase inventory and expand the product line. Not a pink slip went out. When the economy recovered, Baldor was ready with product. Sales have climbed by 46% since 1991, operating margins from 7% to 12%.

Boreham takes care of his customers by making sure they can get the motors they need, when they need them. Baldor's warehouses turn orders around overnight for many of the motors it has in stock, and it has plenty—the company's 11 U.S. factories make a staggering 4,000 different electric motors ranging from 1/50hp to 700hp.

If a customer needs a motor that's not in the catalog, he won't have to wait long. After 75 years, Baldor has over 20,000 different specifications in its database. Says Chief Executive Robert Qualls: "Odds are, we've already designed 80% of the motor the customer wants."



Jim Fiscus

Baldor Chairman
Roland Boreham
**With 4,000
different
electric motors
in stock and
overnight
delivery seven
days a week,
customers keep
coming.**

One broken motor can easily shut down an entire factory, so when Baldor customer needs a motor often needs it yesterday. Baldor's inventory system responds well to such emergencies. The inventory—typically around \$50 million worth—housed in 31 warehouses scattered across the country. Baldor owns the inventory, but each facility is owned and operated by an independent Baldor sales representative who is in constant contact with other reps around the country.

This amounts to an extremely flexible and deeply stocked distribution network. An example: One Saturday last summer Clark Equipment's subsidiary in Fargo, N.D. lost a 20-hp motor on its small-bulldozer production line, idling the plant. Baldor's Minneapolis, Leslie Anderson, who services Clark, didn't have the motor in stock, but his computer told him that the Cincinnati rep, Gene Papet, did. Papet's people overnighted a 300-lb motor to the customer, getting the plant up and running Sunday. "We don't have a competitor that has that kind of inventory," beams Anderson.

Visit any of Baldor's largest factories and this will strike you: The prior day's closing price of Baldor stock is posted daily on the factory floors. That's to remind the workers that a portion of their pay is based on profit sharing and stock options, and to encourage them to keep looking for ways to increase productivity.

At a recent 27, Baldor's stock soared for 16 times the \$1.70 per share. A J.P. Edwards & Sons analyst Kent Nease forecasts Baldor will earn that year. But Roland Boreham says Baldor's sales should hit \$1 billion by year 2000. If productivity continues to improve, Baldor could make around \$100 million on such a sales volume, over \$5 a share.

The prospects make Baldor an attractive takeover target; after Rockwell International recently bought out Reliance. Boreham admits he's had inquiries, but nothing hostile. He contends a new owner would probably run Baldor into the ground by cutting worker training programs and skimping on quality. "That's what made us successful the first place!" he bristles.



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Are you too old for river rafting and looking for a trendy way to entertain customers? Have you tried cooking school lately?

Let's make sausage together

By Suzanne Oliver

PINNED AGAINST the kitchen wall of Los Angeles' Patina restaurant, Steven Jacobson was in heaven. The rush was on. Ten cooks and assistants toiled at high speed, and Patina's fearsome German chef, Joachim Splichal, was yelling for dishes. "How long until the scallop roll? The oxtail? Okay, we're up in 30 seconds!"

Unhappy with a white bean puree with pig's knuckles and lobster sauce, Splichal tossed the whole plate aside

and ordered a new one. "It was magnificent," coos Jacobson.

Jacobson, 58, isn't a Los Angeles health inspector. He owns a landscaping and janitorial services company in Los Angeles. He was watching in the kitchen with Splichal because he loves good food and because Patina is his favorite restaurant. To add to his food lore, Jacobson joined tens of thousands of Americans and bought a cooking school course—in Jacob-

son's case, he and a friend paid \$1,250 for A Day in Patina's Kitchen. The course began by inspecting raw mushrooms at the Grand Central Market in downtown Los Angeles with Splichal at 6:30 a.m., and ended with a five-course dinner for eight. In between, Jacobson watched Splichal and his helpers prepare food at Patina and was even allowed to roll up bits of rabbit in thinly sliced potatoes that were then inspected closely by the sous-chef and served as a restaurant appetizer. "If I had the time, I would do it again," says Jacobson.

Cooking courses have become some of America's boomingest businesses. Measured in dollars, meals eaten in restaurants have been flat since 1988, but enrollments in nonprofessional cooking schools are up over 50% since 1990, according to Dorlene Kaplan, author of *The Guide to Cooking Schools*. Kaplan, who reports sales of her book have quintupled since its first printing in 1988, says there are more than 700 decent-to-excellent cooking schools in the U.S. now, and estimates they take roughly 1.5 million pupils a year. Gross revenues, maybe \$55 million.

The foreign business is exploding, too. Kaplan reports that overseas cooking school vacations taken by Americans have nearly doubled since 1990. Paris' Le Cordon Bleu, which charges about \$880 for a one-week course, is more popular than ever.

Wasn't there a cooking school boom back in the early 1970s? Yes, but that one was fueled by bored housewives. Today's students are mostly working men and women, and the classes are generally offered on weeknights and weekends. "In the 1980s, 90% of our classes were during the day," says Rebecca Ets-Hokin, owner of Home Chef Cooking School in San Francisco. "Now we only have one daytime class a week." Ets-Hokin recently held classes for several Tiffany & Co. sales representatives and has just expanded her operation to a second location.

"We never used to be able to sell Friday night course, but now we sold out," confirms Peter Kump, owner of Peter Kump's New York Cooking School in Manhattan. Kump charges \$425 for a five-course series and runs around 5,000 people a year.



Steven Jacobson (left) with chef Joachim Splichal

For \$1,250 you, too, can spend a day in Patina's kitchen.



At Tante Marie's Cooking School in San Francisco employees and customers of Facs for Offices cook up a feast
Bon appétit!

ough his school. Annual revenues, million. Business is so good that mp is expanding his school in Manhattan and has plans to build schools in Chicago and Pittsburgh.

Why the sudden interest in cooking? It fits into the lifestyle of the aging baby boomers, many of whom would rather spend time in the kitchen than at the gym. A related possible explanation: University of Pennsylvania anthropologist Sol Katz notes that 13 million Americans quit smoking each year. Their taste buds are rejuvenated and their appetites stimulated. They will fill their mouths one way or the other," says Katz.

Whatever the reasons, many of the new students at the cooking schools turn out to be business people who have discovered cooking courses as a way to entertain their customers—it's more interesting than another round of golf. Most cooking school class-

rooms are less formal than a restaurant, and cooking a meal requires cooperation among group members. Like golf, this is quality selling time, and unlike golf, rarely is anyone significantly better at cooking than anyone else in the group. Moreover, the cost is little more than the cost of a restaurant dinner. Depending upon the menu and wine you choose, a special event at a cooking school costs between \$60 and \$100 per person for a meal, including appetizer, entrée and dessert.

"If my clients wanted to, they could be entertained at restaurants every night," says Craig Branigan, president of Young & Rubicam in San Francisco. Branigan wanted something different. Last fall, after winning the advertising business of Golden Grain, maker of Rice-A-Roni, Branigan organized a cooking class for 30 at San Francisco's Tante Marie's Cooking School. The ad executives

and clients brought their spouses and broke into teams—one for the appetizer, another for the main dish, and so on. They composed a Mediterranean dinner of salt cod fritters, eggplant caviar, lamb tagine, couscous and orange chocolate biscotti. "There was a great feeling of accomplishment," says Branigan. Cost for the evening's entertainment: \$1,800, not including wine.

When John Pollart, a stock salesman at New York's Sanford C. Bernstein & Co., was considering new ways to entertain clients and friends, he bought a series of five cooking courses at La Cuisine Sans Peur in Manhattan for \$1,500. Each course included an Alsatian menu with wine for four guests.

In a small Upper West Side apartment, chef Henri-Etienne Levy dazzled Pollart and his guests with his chopping, sautéing, sauces and hints on preparing gratins, rack of lamb and pineapple cake. "It is a great way to entertain," says Pollart. "You don't have to shop or clean up. You just eat, and hopefully learn something."

Cooking together breaks down barriers. "You should see four strangers making sausage together," says Donna Compaglia, vice president of San Francisco-based office furniture vendor Facs for Offices. Compaglia takes different employees and customers from companies including Levi Strauss, Genentech and BankAmerica to a cooking course at Tante Marie's each month.

Meals don't always come together flawlessly when amateurs are at the stove. At a recent class, Compaglia's group calmly ate their dessert of chocolate truffles while the appetizer team still struggled to complete the mushroom turnovers. And consultants at San Francisco's Axiom recall with a chuckle the night their vice president of marketing burned the pita to a charcoal-colored crisp at a team-building event at Tante Marie's. "It was the only job he had to do," marvels Axiom's Brian Bouren.

Does this boom have legs? Almost certainly. A sign of the times: The Scottsdale, Ariz. branch of the famous John Gardiner's Tennis Ranch just added a cooking school. Explains General Manager Adnan Bizri: "Tennis is not growing." Cooking is. ■

"Hello, room service? I'd like an order of dog biscuits, some mineral water and a side order of Alpo."

Dogs very welcome

By Lisa Gubernick

CHICAGO insurance executive Arnold Pritsker doubles over laughing when he tells this story:

Less than an hour after checking in at the Four Seasons Hotel in Georgetown some months back, Pritsker answered the door to admit a room

service waiter carrying a silver tray. Pritsker noticed the tray held dog biscuits and some bottled water. Slight mixup. Seems the tray was intended for Daisy, a two-year-old Lhasa Apso who had just checked into the hotel along with her owner (and Prit-

sker's friend) Christopher Behnk who was staying in a nearby room.

Pritsker stops laughing long enough to advise everyone staying luxury hotels these days to check the room service deliveries carefully before eating, and for good reason. More posh hotels are now paying almost as much attention to the canine guests as to their human ones, gladly accepting four-legged clients and lavishing them with all sorts of four-star services.

The reason has little to do with affection for animals and everything to do with marketing. "We're responding to a trend," says Susan Moore, who heads up public relations at the Ritz-Carlton, a Four Seasons hotel in Chicago. "People are traveling more with all family members, including their pets. We'd rather they all stay with us than stay elsewhere."

While the Chicago

Ritz has always accepted pets as guests, it now welcomes them by showering them with almost as many perks as its favored corporate customers. The hotel's Identification Program tracks of all guests' visits to the hotel. On each visit a new gift awaits—a linen-covered pillow, a squeaky rubber toy or personalized dog biscuits.

For cats, the Ritz "Gour-r-r-met" room service menu offers a half-let of tuna ("Choppy Charlie" (\$8) and six orders of anchovies for \$2.50 a pop. Dogs ordering from the menu can opt for chopped let mignon (\$12) or grilled chicken breast (\$6). An on-site kennel provides grooming at a moment's notice. And, of course, the concierge is available to take your pooch for a stroll down Michigan Avenue, at \$5, for as long as it takes to conduct their business, says Moore.



Daisy and her keepers at the Chicago Ritz-Carlton
Extending four-star service to the four-legged set.

YOU CAN'T SHRINK

to greatness.

reat downsizing as an end in itself and it probably be. Aside from the negative effect it has on company sale, recent research has shown that, over the long term, most companies who downsize to increase shareholder value are unsuccessful in their quest.

At Mercer Management Consulting, we believe in a very different kind of strategy. It's called *growth*. Call us radical, but the plain fact is that shrinking without a plan for growth is like training hard and never running the race. Growth generates positive momentum and creates a renewed sense of purpose.

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The Four Seasons in San Francisco offers its canine guests a bowl of water with fresh mint leaves and a side order of Milk Bones upon arrival. The Four Seasons Boston even keeps a veterinarian on call. "By offering these services we can differentiate ourselves," says Nicola Blazer, spokeswoman for Four Seasons hotel group.

The services are relatively inexpensive to provide, and the Four Seasons figures that guests with pets spend an average of \$12 more per visit when they bring an animal. Freebies like squeaky toys and bottled water cost the Chicago Ritz \$5 to \$8 per dog, according to the Ritz's Susan Moore, while the grooming, room service and walking essentially pay for themselves.

And it's not like the lobby is being overrun with animals. According to the Travel Industry Association of America, about 6% of Americans took their dogs on trips of 50 miles or more (just 1% took their cats), a good bit more than actually ended up at the Ritz. Moore figures only about 2 of the 431 rooms in the Chicago Ritz generally have pets in them.

There are dissenters to this trend.

On each visit a new gift awaits—a linen-covered pillow, a squeaky rubber toy or personalized dog biscuits.

The Ritz-Carlton in St. Louis refuses all four-legged guests except Seeing Eye dogs. "The money and the time required to clean a room where a pet has stayed does not make it profitable for us to extend that option to our guests," sniffs Amy Bocklage, who handles public relations there.

But in the highly competitive luxury-hotel business, Bocklage may soon find herself in the minority. "Welcoming a guest's pet is a way of projecting an image," says Roger Cline, worldwide director for the hospitality consulting services at Arthur Andersen. "It says, 'There is nothing you could possibly ask for that we could refuse. Tell us what you want and so it shall be.' If that means pandering to animals, so be it." ■

What were those funny things on players' noses during the Super Bowl? Medical equipment maker CNS, Inc. is glad you asked.

Nose jobs

By Ann Marsh

WHILE PEPSI, Nike and others coughed up \$1 million for each of their 30-second Super Bowl XXIX spots in January, the game's upstart winner in the image category was \$9.9 million (1994 sales) CNS, Inc. A medical equipment maker from Chanhassen, Minn., CNS didn't spend a cent on commercials. It didn't need to: Its product was constantly flashed before 750 million TV viewers.

CNS makes Breathe Right, a stiff, butterfly-shaped adhesive strip that gently pulls open the sides of the nose, improving breathing by 30%. Sold over-the-counter at about \$5 for ten, Breathe Right relieves congestion and allows easier breathing during exertion. But don't take CNS' word for it. San Francisco 49ers wide receiver Jerry Rice, San Diego Chargers running back Natrone Means and at least a half-dozen other players wore CNS' strips, giving the product invaluable endorsements and better billboard display than Budweiser's blimp.

Most viewers didn't know what the strips were nor who made them. But CNS is now taking care of that. It has signed the 49ers' Rice to a three-year contract (with stock options) to tout the product's benefits in a television and print campaign. "I can get more air to my muscles [with Breathe Right]," enthuses Rice to FORBES. "It really opened everything up for me so I could breathe."

Started in 1982, CNS has been a moneylosing maker of brain wave monitors and diagnostic equipment for sleep disorders. It began making the nose strips a year and a half ago as a way to relieve nasal congestion and cut down on snoring. The product received scant attention until CNS co-founder Daniel Cohen, a neurologist and football fan, sent the strips to all 28 National Football League trainers



Jerry Rice at Super Bowl XXIX
Not a Band-Aid, a breathing aid.

last year.

When Philadelphia Eagles running back Herschel Walker appeared in the *Philadelphia Inquirer* wearing it, Jerry Rice asked his trainer to get him one. After Rice played in a November game wearing the strip, CNS added Rice's endorsement to promotional tapes sent to local television stations. Over two dozen stations ran stories and sales started to take off.

Virtually half of last year's \$2 million in Breathe Right sales came the fourth quarter. CNS expects the sales of the breathing strip will hit \$1 million this year and reach \$20 million next year.

CNS is now going after hockey players, and is thinking of making 1 strips in team colors. Cohen is a betting that the product's silly look will tempt disbelievers to try it just a lark. Cohen tells the story about skeptical thoracic surgeon in Philadelphia who donned one at a restaurant—then walked from table to table talking about how much better he could breathe. "No one ever thought it's going to work," says Cohen. "How many fun medical products do you see?"

Building a Better Mousetrap

"If a man can write a better book, preach a better sermon, or make a better mousetrap," said the famous writer and poet Ralph Waldo Emerson, "...the world will beat a path to his door."

Emerson's maxim serves as a perfect metaphor for the intermodal industry. Since the 1980s, corporate America has been beating a path to intermodal's door. Why? Because with its combination of ship, truck, and rail service, intermodal offers something unique — a cost-effective, reliable, damage-free transportation service. A better mousetrap.

Even more important, the industry has maintained its momentum with record growth for 13 straight years, making intermodal the fastest growing segment of the transportation industry.

The key to that growth is the industry's ability to create and adapt service programs that meet the widening needs of shippers. Service packages that offer daily, reliable shipments to every market in America, linking every port with every market. Enabling leading corporations and transportation companies to lower their costs and improve their service to customers.

Intermodal's growth is expected to continue well into the 21st century. A vital factor of that growth will be the industry's commitment to strengthening its partnership with shippers. In fact, progressive carriers are already forging closer alliances with shippers, through revolutionary service packages that create value for both parties by encouraging the shipper to help drive the service design process.

For the first time shippers and carriers are forecasting and planning long-range. They're working to balance traffic patterns and better utilize equipment and terminal space. And they're realizing that a closer partnership and a long-term commitment translates into added value for both parties. The shipper enjoys priority service, guaranteed equipment, and lower distribution costs. The intermodal carrier optimizes its asset utilization and return on invested capital.

That's what happens when shippers and intermodal carriers team up effectively. Lower costs. Satisfied customers. Prosperous shareholders. Shared value.

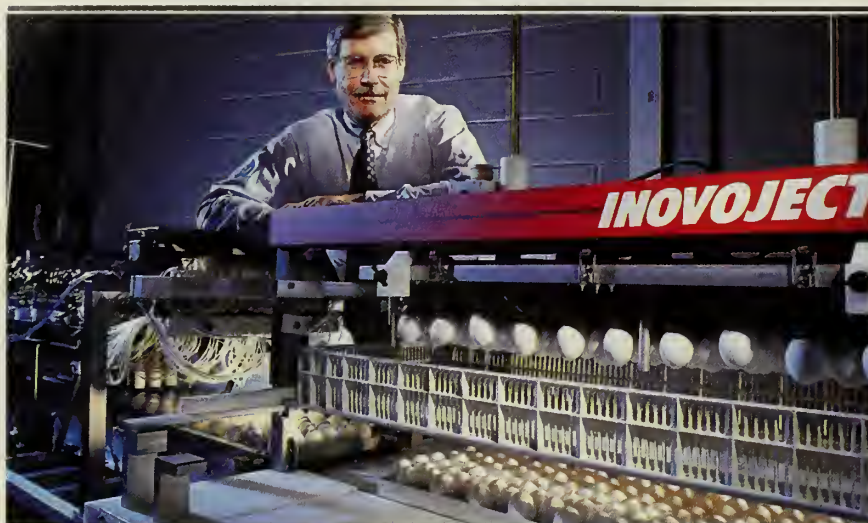
Now *that's* a better mousetrap.

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Biotechnology hasn't yet resulted in a cure for cancer or AIDS. But it is scoring successes in more mundane fields, such as broiler production.

Robovet

By Nikhil Hutheesing



Embrex Chief Executive Randall Marcuson
Less manpower, more chicken power.

EVERY DAY millions of day-old chicks trundle down conveyor belts in the hatcheries of poultry giants like Con-Agra and Hudson Foods. Workers grab the little fluff balls, jab them against stationary hypodermics that vaccinate against Marek's disease, a nerve disorder, then dump them into boxes, where they are hauled away for 49 days of binge eating. That fattening period could be shorter and cheaper if the first day of life didn't hurt so much. Important in this thin-margin business.

With that idea in mind, Embrex, a Morrisville, N.C. company, has devised a robot that gives shots not to the chick but to the egg—30,000 of them an hour. The chicks thus come into the world unpunctured, and the farmer gets more cluck for the buck.

Three days before the eggs are due to hatch, workers feed them to Embrex's machine, a row of dangling injection heads equipped with locators. The injection head zeroes in on an egg, punches a hole in the shell with a hollow tube, pushes an inch inside the egg and squirts in the vac-

cine. Then the tube pulls out, to be sterilized and reused.

The process seems pretty straightforward, yet it took Embrex seven years to create a machine that could pierce an egg without cracking it. The key was to use a needle not quite a millimeter in diameter, with a beveled tip. That creates a flap of eggshell that stays attached to the egg between the shell and membrane, rather than falling into the embryo.

Such lengthy research and development pipelines are typical in biotechnology, and often no product comes out the other end. When the intended product is a drug for humans, the pipeline includes \$100 million or more of clinical tests. Embrex, aiming at a less glamorous target, was able to get its product to market for a mere \$25 million.

The Embrex vaccinator, which the company began shipping 24 months ago, is a hit with poultry producers. Already, more than a third of the

broiler chick eggs laid in the U.S. are vaccinated with Embrex's system. Tyson Foods, Perdue Farms and Con-Agra are converts. Embrex's losses have narrowed from \$7.3 million to revenue of \$2 million in 1993 to \$6 million on revenue of \$6.9 million last year.

Embrex was formed in 1985, after Jagdev Sharma, then a scientist with the U.S. Department of Agriculture, proved that chicks could be vaccinated before hatching, and the US patented the idea. Harold Smith, entrepreneur whose previous ventures have included Ecogen and Cambridge Bioscience, saw an opportunity to build a business around the procedure. He licensed the rights to the USDA's Sharma patent for a royalty (whose level the government considers a secret) and over the next five years raised \$14 million in venture capital. A 1991 public offering raised \$18.9 million.

Smith, who retains roughly a 10% stake in the business, didn't want to run it; he has brought in Randall Marcuson, a former American Cyanamid executive, as chief executive. Embrex has exclusive rights to the USDA patent through 2002 and another set of patents of its own.

Marcuson says that poultry producers are turning to the automated system because it helps reduce production costs. A happy chick needs less food to fatten up. What's more, a chick immunized in the egg is better able to resist infections.

But the biggest savings is in manpower. A vaccination line running 30,000 chicks per hour demands 10 workers doing their work the old way but only 2 workers doing it the Embrex way. Poultry producers have little to lose, because Embrex leases the robot to them, with no upfront money required.

Marcuson is now developing other products for his system, including egg-delivered vaccine against Gumboro virus, which destroys a chick's immune system. As a first step, Embrex has developed a "viral neutralizing factor" that attenuates harmful vaccines. If Marcuson achieves his ambitions here, chicken hatcheries will have a vaccine that is at once cheaper, more powerful and safer for the chick than the alternatives.

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Liability lies

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Orwell's Revenge*; his E-mail address is 72643.2211@compuserve.com.

CONGRESS IS CONSIDERING some fairly significant reform of our liability laws. The people who earn their living spinning facts to juries are not happy. Herewith a list of irrelevant, misleading or simply false reasons they are now spinning to the public to prove that no reform is needed.

Fewer cases are being filed in federal courts. Most auto, product, medical malpractice and other routine liability cases are brought in state courts. The federal case-load numbers are meaningless.

Fewer cases are being tried in state courts. Most claims settle before any legal papers are filed; the vast majority settle before trial. A court is just a very expensive machine for finding out who's going to win, and how much. When the rules are clear, people don't go to court; they settle quickly and save the money they'd otherwise pay lawyers. Case loads measure only the opacity and volatility of the underlying legal rules. They tell you nothing about how many claims are made and paid.

Lots of valid claims don't get filed. Lots of invalid ones do. That's what's most wrong with the system—it doesn't reliably connect true wrongdoers and the truly wronged.

The real crisis is the accident crisis. There is no accident crisis. By every objective measure cars, planes, doctors, football helmets, drinking water—and practically everything else—are getting safer year by year.

Americans are living safer and longer than ever before. But prompted by lawyers, we just sue more and more about less and less.

There is no accident crisis because lawyers saved us. America ranks smack in the middle of major industrialized countries on all objective measures of health and safety. Our legions of lawyers have had no measurable impact at all on the hard statistics of injury rates and life expectancy.

Plaintiffs are losing more often. Plaintiffs are winning more often, too, as the volume of claims balloons. Yesterday, one plaintiff won and one lost. Today, two win and three lose. When my 6-year-old plays baseball, she gets to swing until she connects; the umpire just counts runs scored. Liability works that way, too. Insurance rates are based on total payouts, not batting averages. Overall, more plaintiffs are collecting more money through the liability system than ever before.

Median awards are falling. The "median" is what half of all awards exceed. But the average is what counts. If nine claimants win nothing but the tenth wins a million, the median payout is \$0; the average is \$100,000. The average, multiplied by how often it is likely to be paid, is what determines the price of an insurance policy. That product has been rising.

Punitive damages are rare. Lightning is rare too, but it still clears the golf course during a storm.

Liability insurance is a tiny cost of doing business. Choose a big enough denominator and you can make anything look tiny. Lots of general practitioners dispense aspirin and cold medicine; it's the obstetricians and neurosurgeons who get hammered. Manufacturers of contraceptives and small planes get sued all the time; manufacturers of toothpaste and paper clips don't. Lumping them all together—total liability premiums as a percentage of gross national product—is statistical nonsense.

Insurance companies are profit-

able. Some are, some aren't. The mutual insurance companies that insure many doctors are owned by the policyholders themselves. In any event it proves nothing that liability insurers prosper when liability expands. Litigation is what sells the product. Profit comes from assessing the risk and then covering it. But risks require more insurance.

Nobody has any reliable number. The reliable, bottom-line measure of how much the liability system costs is what people pay to insure

Americans are living safer and longer than ever before. But we sue more and more about less and less.

against it. These are hard numbers. For several decades total expenditures on virtually every class of liability insurance have risen much faster than inflation.

The federal government, states and municipalities insure themselves, and they know they've been paying more. Government runs various special purpose insurance programs—for vaccines, federal employees and so on; expenditures on these are rising inexorably. The cost of workers' compensation insurance (currently about \$70 billion a year) has risen far faster than workers' salaries. As of 1992, total private spending on other forms of liability insurance and self-insurance amounted to about \$132 billion a year. The figures get soft only when you try to assess the additional, indirect cost of laying paper trails, engaging in defensive medicine and not building small planes. Estimates of these costs are inevitably imprecise. But no one denies they exist and can be large. If you're pregnant and suffer from morning sickness, you go see your lawyer. Your doctor has nothing left to prescribe.

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How many people does it take to run a \$260 million computer monitor business? Nokia's Mac Motraghi thinks five is a bit high.

"I don't want to manage people"

By Fleming Meeks

MAHYAR (MAC) MOTRAGHI has little patience for corporate overhead. Two years ago Nokia Group, the \$6.6 billion (expected 1994 revenues) Finnish high-tech firm, dispatched him to the U.S. to set up marketing operations for its high-resolution computer

monitors. This year Motraghi expects sales for his Sausalito, Calif.-based Nokia Display Products Inc. to nearly triple, to \$260 million, from \$90 million in 1994.

How much corporate baggage has Motraghi taken on? "My dream was

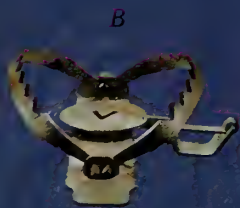
to have a billion-dollar company with just two people," says Motraghi, Iranian-born engineer, in letter-perfect Oxford English. Sighing, he adds, "That's not going to happen. His staff, he explains, has already ballooned to five.

Motraghi's outfit is basically a marketing and distribution business. Until recently he catered to just a handful of big customers, like Digital Equipment, Compaq Computer and Siemens Microsystems, which sell Nokia monitors under their own names. So Motraghi doesn't need such a huge staff. But *five*?

The son of a prosperous businessman who subcontracted labor and supplies to foreign companies setting up in Iran, Motraghi was away at a British boarding school when the Shah began to totter in the late 1970s. "I realized I was allergic to pain, and I really didn't want to go back," says



Nokia Display Products' Mahyar Motraghi (foreground); Mark Tomko of International Technology Associates, Nokia's contract sales force
Creating a high-tech brand with a shoestring budget and a shoestring staff.



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Nokia's 17-inch Valuegraph monitors, designed specifically for the U.S. consumer market

As computers become household appliances, Nokia is hoping its "color" monitors will blend in with the decor.

Motraghi, now 34.

By the mid-1980s, Motraghi had earned a degree in electrical engineering and was working for IBM in Scotland. One of his jobs was to find a European source for personal computer monitors. Motraghi turned up Nokia, based in Helsinki. Nokia is best known, now, as the second-largest manufacturer of cellular phones in the world. But back then it was a jumble of companies making everything from flooring and truck tires to computers and electrical cables (FORBES, Sept. 12, 1994).

But it turned out top-notch monitors for Motraghi. Moving on to Compaq's Scottish operation in the late 1980s, Motraghi again turned to Nokia for monitors.

By 1992 Nokia was selling more than \$50 million a year worth of monitors to IBM and Compaq. Nokia decided it was time to send someone to the U.S. to manage the monitor business. Motraghi got the job.

Motraghi decided to experiment with a new management idea. A few years earlier, he had read Charles Handy's 1989 book *The Age of Unreason*. In it the British management writer proposed paring companies down to their essential professional and technical core. "All nonessential work, work which could be done by someone else," wrote Handy, "is therefore sensibly contracted out to people who make a specialty of it and who should, in theory, be able to do it better for less cost."

Motraghi decided to apply Handy's theory with Nokia Display. After lining up subcontractors to handle customer service and support, warehousing and public relations, he booked \$80 million in revenues before he even hired a secretary. Since

then, he's added two assistants, an accountant and an operations manager; an executive has come over from Finland to act as a direct liaison with the factory. So how does Motraghi avoid the creeping bureaucracy that comes, for example, in handling the legal red tape of something like customs? By insisting that his subcontractor—in this case the warehouse—take responsibility from beginning to end. "There is no point in my having a dog and doing the barking too," he explains matter-of-factly.

But Motraghi's ambitions went beyond selling to original equipment manufacturers. He figured he could cut through the noise of 90-some competitors with Nokia's high-end 17-inch and 21-inch monitors, and sell a Nokia-branded product to U.S. business and consumer users.

Motraghi's bosses back in Finland agreed, so long as they could limit the risk. Motraghi was given \$100,000 to get started—barely enough to produce three ads and a brochure.

"My dream was to have a billion-dollar company with just two people."

Undaunted, Motraghi contracted out sales to Mark Tomko. A veteran of more than a dozen computer-related startups, Tomko runs a small sales firm in Sausalito called International Technology Associates. Tomko, in turn, put up \$700,000 of his own money to build a 30-person sales organization dedicated to the Nokia monitors and took full responsibility

for, among other things, billing a collections. "This is why the relationship works," says Motraghi, "because we have a partner to share the risks as well as the rewards."

Tomko returns the compliment. "You have to remember, they [Nokia] filled up the warehouse with \$7 million in inventory," declares Tomko, 39.

Slowly the brand is catching on. With the help of "editors' choice" awards from the likes of *PC Magazine*, *MacUser* and *Home Office Computing*, Nokia's sales of branded monitors have grown from under \$3 million in the first quarter of 1994 to \$10 million in the fourth quarter. At Nokia's \$999 (street price) Valuegraph monitor is currently the top-selling 17-inch monitor at Ingram Micro, the \$5.8 billion (1994 revenues) computer equipment and software distributor.

Can Motraghi and Tomko meet their ambitious goal to push branded sales to \$200 million this year? Nokia's monitors are already in Compaq USA, the \$2.1 billion (revenue) computer retailer, and deals with several large electronics retailers around the works. But Nokia needs more than just home PC buyers. Corporate and government customers, too, will have to jump on board.

"Cracking the corporate market requires a longer sales cycle than retail," says Roderick Mano, who buys monitors for Entex, a \$1.3 billion (1993 revenues) systems integrator based in Rye Brook, N.Y. But he says Entex is beginning to get nibbles for Nokia monitors.

"A lot of companies not only look at price and performance," says Mano, "but they also want monitors that meet certain emission standards and ergonomic standards, which Nokia is famous for." The finicky state of California, for example, recently signed a deal with Entex for nearly \$10 million worth of Nokia monitors.

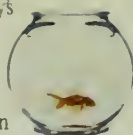
Motraghi says Nokia's monitor plant back in Finland may soon run out of capacity, and hints that Nokia may build a plant here to meet demand. But he says he has no interest in bringing manufacturing under wing. "I don't want to manage people," he says. "It takes time away from what we have to do."

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COMMENTARY BY JOSEPH R. GARBER



Joseph R. Garber is a strategist with Americom Corp. in San Francisco.

I'M GOING TO GO OUT on a limb and predict that the next big superstar will be a gravel-voiced character named Ben. He's the latest in a string of strong, silent he-men that stretches from William S. Hart to Clint Eastwood. And, like the lone riders who have come before, Ben has a heart of gold, a code of honor and a repertoire of sour one-liners that are laugh-out-loud funny.

One other thing about Ben—he's all digital.

Oozing personality from every pixel, Ben stars in the CD-ROM *Full Throttle*, forthcoming from George Lucas' software company, LucasArts. *Full Throttle* is less a game than an interactive feature movie. The plot: Ben is the chief of a good-guy biker gang. He wakes one morning to find himself framed for murder. Worse (in Ben's eyes), a sinister takeover raid has been launched against the outfit that makes the last great motorcycles; some fiend wants to convert its factories to manufacture—

blasphemy!—suburban minivans.

Of course, *Full Throttle* is not the multimedia industry's first attempt to make an interactive movie. So why is this one different from the dozens (and soon to be hundreds) of other examples of the genre?

First, the story is upbeat in a mostly downbeat industry. To illustrate how downbeat, here are the themes of some of the most heavily promoted new multimedia games: go to hell and then try to get out (*Hell*), fight off a computer virus that's eating your brain (*Burn: Cycle*), stop a crazed druglord from blowing up Los Angeles with a homemade atomic bomb (*Flash Traffic*). Then there is *Operation Bodycount*, whose title speaks for itself.

These yarns may appeal to antisocial teenage computer geeks, but unlike *Full Throttle*, they hardly qualify as family fun.

Second, most of the current crop of CD-ROM games feature film clips starring not-ready-for-primetime (or past-their-prime) actors. If your personal computer is very fast—one with a Pentium or Power PC processor—and has gobs of memory, the results are bearable. If not, not.

In contrast to the jerky, grainy action in these film-game hybrids, all of *Full Throttle*'s actors and props are computer-animated graphics. The result: smooth, fast, enjoyable viewing and play, even on older PCs.

Third, and most technically impressive, LucasArts has invented (and patented) some very clever soft-

ware that makes *Full Throttle*'s action sequences excitingly cinematic. Then, too, LucasArts has its roots in the movie business and has applied the techniques of moviemaking (camera angles, lighting, editing and so forth) to make what's on the screen look more like a movie than a computer game.

Which raises the question: If moviemaking techniques work well in computer games, won't the big Hollywood studios take over the business?

Probably not. The Hollywood crowd seems to believe that consumers can't resist games based on theatrical films. Looks to me like they're even more out of touch with reality than usual because the only two movie tie-in games to make the top 20 list last year came from Lucas. (They were *Star Wars: Rebel Assault* and *Star Wars: Wing*.) Indeed, when I scanned the bestseller lists for January of this year I could find no multimedia product—movie tie-in or original production—created by any big studio.

If you need more evidence that the studios are also-rans in the game business, you need look no further than Steven Spielberg, a man who knows how to pick winners. His next big science fiction production is called *The Dig*. It's not a movie, it's a game, and Spielberg is coproducing it with LucasArts.

There can be very little doubt that multimedia entertainment is on its way to becoming a very big, very lucrative business. A hit title's profit margins are the stuff dreams are made of. Last year's runaway hit *Star Wars: Rebel Assault* sold more than a million copies—in the process, unless I miscalculate, dropping about \$20 million straight to George Lucas' bottom line. What did it cost to develop the game? Beans. In an era when other companies burn \$4 million and up to get a new game out the door, LucasArts' tab for *Rebel Assault* was in the mid-six figures. Moreover, the budget for *Full Throttle* is under \$1 million. And remember: Digital characters like Ben don't have agents or drive Porsches.

All of which goes to prove you don't have to throw money at multimedia to create an entertaining product.



Scene from LucasArts' "Full Throttle"

Digital characters don't have agents or drive Porsches.

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Assailed by nutritionists, the fast-food industry is now offering "healthier" food. You can lead a horse to water but you can't make him drink.

Leaner menus

By R. Lee Sullivan

CAN FAST FOOD be low fat? Sure, but it's just not the kind of fast food people want to buy: salads with yogurt dressing, tiny portions of broiled chicken and such. Still, nutritionists lecturing the public about the evils of typical fast food may scare customers out of a hamburger chain. The chains have figured out how to cope: They offer lower-fat, lower-calorie options without taking hamburgers and fries off the menu.

Thus recent issues of the *Journal of the American Medical Association* have been running full-page ads from McDonald's offering "nutrition materials about our menu to show your patients how our food fits into a healthful diet." McDonald's, Wendy's and Jack in the Box put up exhibits at the American Dietetic Association's annual meeting. Taco Bell is sending information packets to hundreds of doctors and nutritionists and sending spokesmen to meet with health care industry associations.

Note: None of this nutritional campaigning means the chains are ditching the greasier food that accounts for most of the fast-food industry's sales. That would be economic suicide and would merely drive the customers elsewhere.

All the chains are doing is saying that lower-calorie food is

available if the customer asks for it.

The image-making campaign is helping take the heat off. Taco Bell's new low-fat additions have won kudos from the self-righteous Center for Science in the Public Interest in Washington, D.C., which last year lashed out at Italian and Mexican cuisine as too fatty.

"If you choose carefully, you can get a good meal at a fast-food restaurant," says Jayne Hurley, senior nutritionist with the CSPI.

That's true at McDonald's, too. The McGrilled Chicken

Classic comes in at 250 calories and 3 grams of fat; a 234-gram Garden Salad with Lite Vinaigrette dressing at 130 calories and 6 grams of fat.

By contrast, a Big Mac has 510 calories and 26 grams of fat.

Most people still prefer the Macs to McGrilled Chicken.

That's one of the reasons a third of America is overweight and the nation is packing on pounds at a record rate, according to a recent Centers for Disease Control & Prevention study.

"Most people don't have the willpower to go into a fast-food restaurant and just have a salad," says Dr. Lawrence Cheskin, director of the Johns Hopkins Weight

Management Center. Beef still outsells chicken and salads a most chains. At Burger King home of the 640-calorie Whopper, burgers outsell the rest of the menu 3-to-1.

Small wonder, then, that McDonald's low-fat McLean hamburger nearly flopped when it was introduced in 1991 and has limped along ever since. Arby's permits restaurants to leave low-fat items off the menu altogether, and about 40% do. When Weight Watchers tried to sell its dietetic food in Burger King outlets, it had few takers. The line was canceled in 1992.

If the constant nagging has convinced you to give up burgers and fries for something lighter, here are two cautions. First, hamburgers aren't the only offender. For instance, the Boston Chicken Chunky Chicken Salad Sandwich is one big bird at 763 calories and 4 grams of fat; Taco Bell's new "light" Taco Salad still a fiesta at 680 calories and as many as 25 grams of fat.

Second, don't forget that a low-fat center does not by itself make a meal nutritional good. Claude Plaisted, a nutritionist at Duke University's Stedman Nutrition Center, argues that it's difficult to get a well-balanced meal at a fast-food restaurant because there aren't enough fruits and vegetables on the menu.

Fast-food salads often contain too much iceberg lettuce, more popular than romaine or spinach leaves but not as nutritious. In a free society you can tell people what you think is good for them but you can't force them to follow your advice.

Carl's Jr. Double
Western Bacon
Cheeseburger
970 calories
57g fat



McDonald's
Quarter Pounder
420 calories
20g fat



Roy Rogers
Hamburger
260 calories
9g fat



Burger King
Hamburger
330 calories
15g fat



McDonald's
Hamburger
270 calories
9g fat



Wendy's Single
Hamburger
350 calories
14g fat



Burger King
Double Whopper
with Cheese
960 calories
63g fat

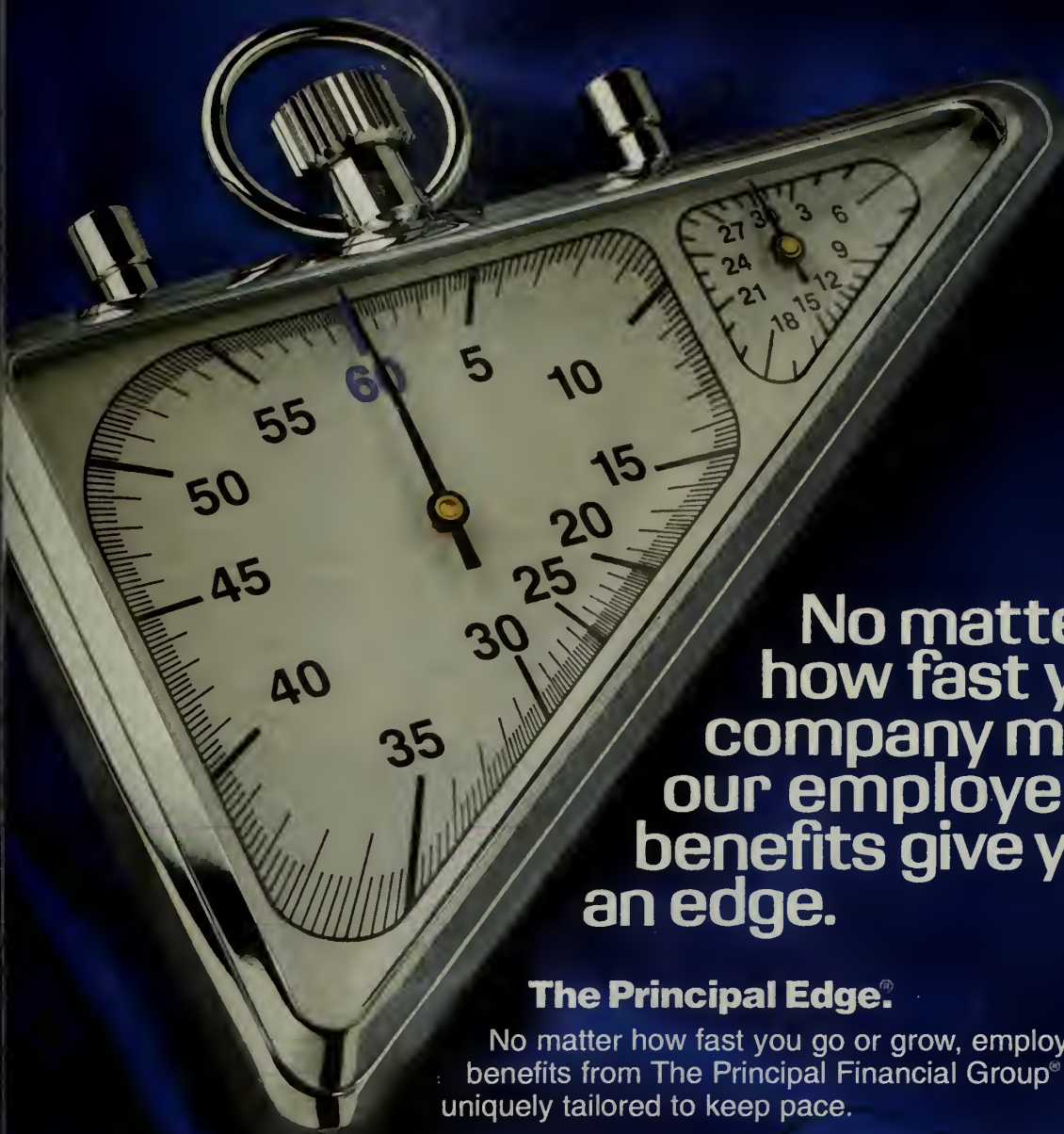


McDonald's
Big Mac
510 calories
26g fat



Burger King
Whopper
640 calories
39g fat





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No wonder the Brits delayed the Chunnel:
It makes escape to Paris easier, faster and cheaper.

Breakfast at the Savoy, lunch at Brasserie Lipp

By Peter Fuhrman

THE CHANNEL TUNNEL is at last open, and with it regular nonstop train service between London and Paris.

The trip, linking Waterloo Station in the heart of London to Paris' Gare du Nord, takes only three hours. That's about a half-hour faster than it takes to fly, when you include getting to and from airports. It's also a lot less stressful.

A separate service through the tunnel links London and Brussels. These trains stop once, in the French city of Lille, where passengers can board the high-speed *Trains à Grande Vitesse*, or more familiarly TGVs, to much of France.

At present there are five departures from London and from Paris every day except Friday and Sunday, when there are six. Between London and Brussels, three a day. By early May there will be eight departures daily to Paris.

From London you catch the trains at the new Waterloo terminal, just across the Thames from the Houses of Parliament. The terminal building is a curving sleeve of glass and steel, built along an elevated section of the Victorian-era Waterloo Station. A cab ride to the terminal from London's West End or the business district of the City costs about \$15 and takes less than 15 minutes. Compare \$60 each way to Heathrow.

For now, things are pretty quiet inside the new international terminal. But when the train service reaches its planned level of 12 trains per day to both Paris and Brussels in 1998, Waterloo is expected to handle 25,000 passengers a day, five times the current level.

Passengers must arrive at the termi-

nal 20 minutes before departure. There is an airport-style security check, but immigration controls are carried out on board.

Baggage? No problem—there is ample baggage space on each carriage, and handcarts are available for toting your gear to and from trains.

You can buy tickets at the terminus or book by phone through Eurostar, the consortium of British, French and Belgian nationalized rail companies that now operates the trains.

Round-trip fares from London: \$300 in first class; and \$150 for an airplane-style seat in the second-class



partments. Eurostar's first order of business is to win over from the airlines a large slice of business travelers, especially between London and Paris, the busiest air route in Europe. So, the round-trip first-class train fares have been set 20% below those of competing round-trip business-class tickets on British Airways or Air France. Once on board, first or second class, it's all assigned seating. In first class, you can choose window or aisle seats, facing either front or rear. Some seats are grouped around spacious wooden tables. Seats in first class are larger and more comfortable than a business-airplane seat. But no one would mistake the starkly modern first-class compartments for those of the Concorde Express. Food? First-class passengers get a three-course meal served at their seats

and free beverage service. Second-class passengers help themselves in the buffet car. The food is better than what you get on the 45-minute London-to-Paris flight, but not up to the old European tradition of dining in richly appointed dining cars.

The journey from Waterloo to the tunnel takes nearly an hour as the train creaks its way—at 60 miles per hour—through Kent. The passage through the 31-mile-long tunnel takes about 20 minutes and is so smooth that you don't even sense descending or ascending, despite the fact that the tunnel dips to 400 feet below sea level.

On the French side the electric train picks up speed, quickly reaching its cruising speed of 200 miles per hour along new, arrow-straight tracks. The scenery, for the most part, is bland—acre upon acre of flat, heavily subsidized French farmland.

The train decelerates just as it pulls into the Gare du Nord, recently spiffed up to compete with the new Waterloo terminal.

It's a short walk from the train to the cab rank or the Métro. Using either, you are no more than 20 minutes away from the main business and tourist areas of Paris.

For booking seats, Eurostar from the U.S. is at 011-44-233-617575. In a few months, after Eurostar finalizes an agreement with the Sabre reservation system, it will be possible to book tickets through travel agents anywhere in the world.

Bigger changes are on the way this fall. The British government is going to turn over the management of its part of Eurostar to a private operator. The clear favorite to win the contract is a consortium led by Richard Branson's Virgin Group and includes U.S. construction giant Bechtel. Vir-



Raphael Galindo/Gamma Liaison



A Eurostar train at London's Waterloo Station (left); passengers in a roomy first-class compartment

Through the tunnel into the heart of Paris in three hours. Both cheaper and more comfortable than airline business class.

gin promises a host of amenities, from seat-back video players to frequent-traveler awards to special promotional fares.

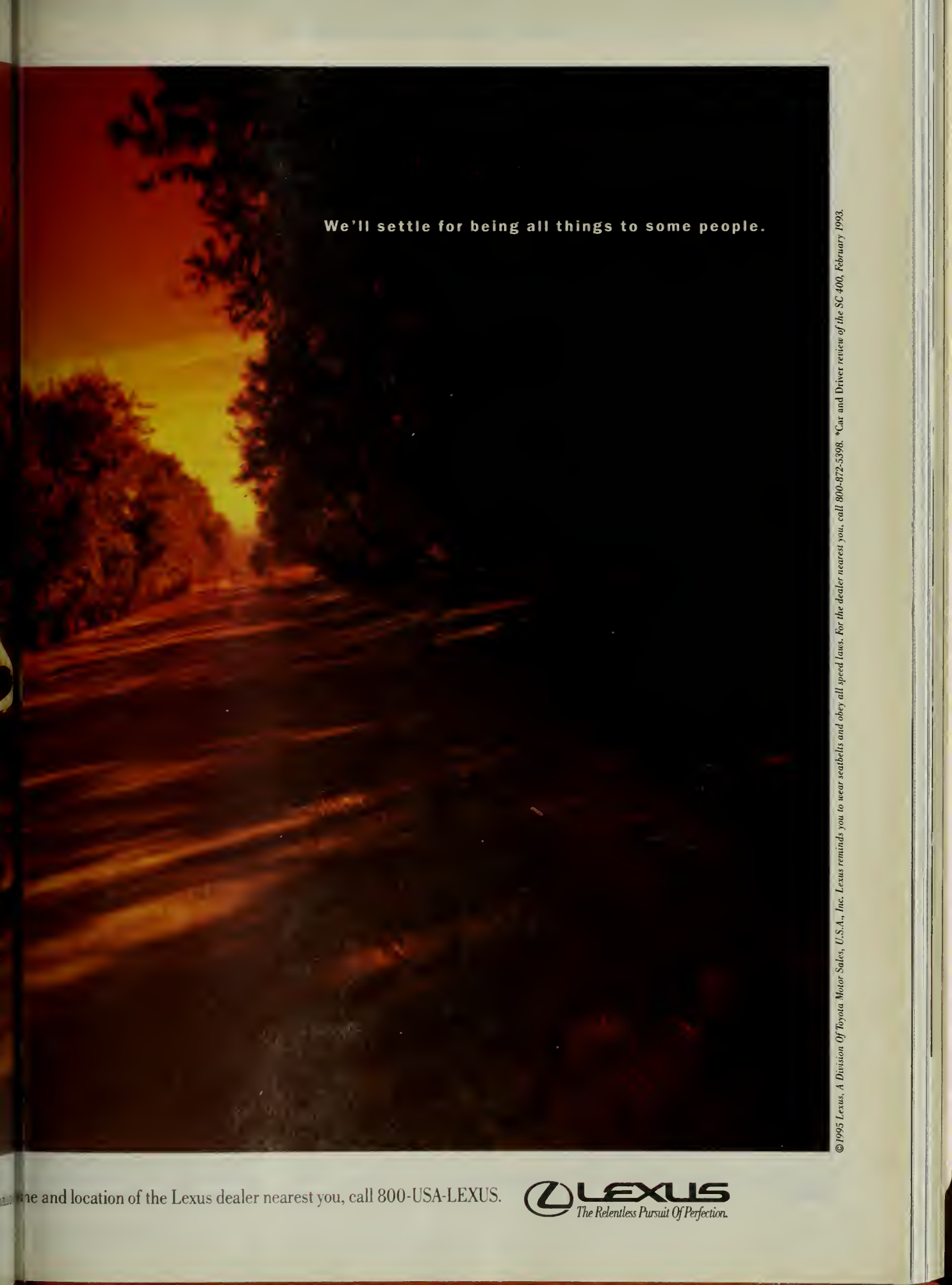
How are the airlines reacting? British Airways and Air France have slashed round-trip economy fares to Paris to \$120—\$30 less than the economy rail fare—if you stay over Saturday night.

But for now at least, the new kid on the block is doing quite well, with Eurostar trains between London and Paris already averaging about 75% occupancy.

The SC 400.



Car and Driver has called the Lexus Coupe "possibly the best car on the planet."* Not that you'd demand ar



We'll settle for being all things to some people.

© 1995 Lexus, A Division Of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts and obey all speed laws. For the dealer nearest you, call 800-872-5398. *Car and Driver review of the SC 400, February 1993.

For the name and location of the Lexus dealer nearest you, call 800-USA-LEXUS.



There is magic and mystery in masks, for which collectors will pay plenty. No wonder fakes are so common.

Face value

By Brigid McMennamin

THE IGALA PEOPLE of Nigeria traditionally used a mask—known as the Egu Oramamu mask—to bring murderers to justice. Carved in wood and painted white, with black features and pegged teeth, the mask spelled doom to suspected killers.

Whenever there was a murder, the elders would convene, determine the culprit, and then follow a strong young man wearing the mask to the suspect's home. "It was as if the mask somehow had divine knowledge,"

says Indiana University Professor Emeritus Roy Sieber, a world-renowned expert on African art.

The accused would then be turned over to the family of the victim, who'd strangle him.

Tribal masks have become prized collectibles. Last year an Eskimo mask depicting a hunter and seal in a kayak sold at Sotheby's in New York for \$189,500. In 1990 an old wooden mask from the Bamileke tribe in Africa went for \$319,000. The following

year, an ancient pre-Columbian mezc mask fetched a record \$429,000 at auction.

Such prices are a fairly new phenomenon. As collecting categories go, masks began to get serious attention from art collectors in this century. A seminal event was a tribal exhibit in 1935, at New York's Metropolitan Museum of Art. Then in 1957 Nelson Rockefeller, who was an early collector, built the Museum of Primitive Art—now part of the Metropolitan—around his collection. Since then, other prominent collectors—not just of masks but of all kinds of primitive art—have appeared. They include William Ziff, and George Lois (*FORBES*, Feb. 2, 1991) and sculptor Armand Arman.

One of the largest private collections in the U.S. belongs to Indianapolis plastic surgeon Charles Wally Zollman. His collection, which has its own full-time curator, is worth several million dollars. It includes African spirit masks, pre-Columbian jade and stone masks, sa wooden Himalayan masks, colorful Amazonian feather masks and ancient Chinese burial masks. Zollman's 300-mask collection is housed in a 1,600-square-foot gallery under the Zollman Center for Plastic and Hand Surgery in Indianapolis.

"Is anything more appropriate for a plastic surgeon?" asks Zollman, who started collecting masks in 1985 when he happened upon a jade Olmec mask carved in Guatemala around 900 B.C. That mask is currently worth at least \$500,000.

Enchanted by its soft, serene expression, he began to hunt for other ancient American masks and figures: a green and white West Mexico stone mask (500 to 200 B.C.); several little (1 to 2 inches tall) jade maskettes once used as pendants; and many other striking pre-Columbian faces.

Those acquisitions led him to African, Asian and Amazonian masks.

Zollman learned early on that masks are everywhere—from tribal masks to your corner curio shop. As far back as 1976 the problem was so acute that the quarterly *African Arts* devoted an entire issue to the problem—and gave some tips on spotting fakes. Of course, that publication soon turned up in A



Wally Zollman with jade Olmec mask c. 900 B.C.

"Is anything more appropriate for a plastic surgeon?"



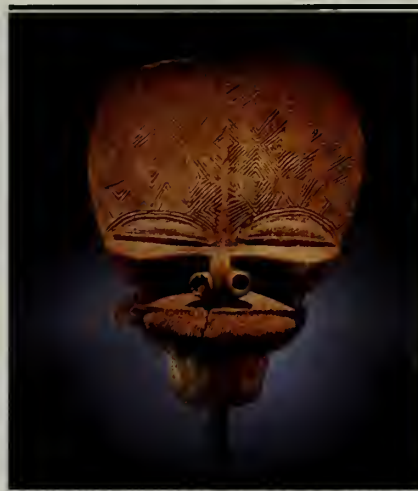
ec serpentinite mask c. 1150-550 B.C.
ed \$429,000 at Sotheby's in 1991.

catalog cover pronounced it a phony.

Tribespeople themselves can't always tell whether a mask is real or fake. James Faris, an anthropology professor at the University of Connecticut, once spotted some fake Navajo healing masks at Santa Fe's Wheelwright Museum of the American Indian. They'd been donated by some wealthy former trustees. But instead of destroying the phonies, the museum gave them to the Navajo Community College. Faris believes that at least one of these masks is still in use in healing practices. "All kinds of fake things become real," shrugs Faris.

Sotheby's is planning three auctions that will include masks: Tribal Art (May 4), pre-Columbian (May 16) and American Indian (May 23).

Before you go, read *Masks and the Art of Expression* (Harry N. Abrams, Inc., 1994), available from Océanie-Afrique Noir (OAN), 15 West 39th Street, 2d floor, New York, N.Y. 10018-3906 (212-840-8844). Cost:



Central Bamileke mask
Took in \$319,000 at Sotheby's in 1990.

\$50. Or subscribe to the *World of Tribal Arts*, a quarterly published by Tribarts, 814 Montgomery Street, San Francisco, Calif. 94133 (415-567-6141).

ere it's required reading for forgers. Warns New York dealer Eric Robson, "Reproductions are brought to this country in container-loads." and the fakes get better and better, ms St. Louis art dealer Thomas xander. He admits to having once l an African mask—blessed by two erts—only to discover that it was a . "If there's a dealer who tells you s never sold a fake, he's lying," says n Buxton, a Dallas-based dealer appraiser.

ow not to be taken? Savvy collec- do a lot of research before com- ting to buy. Say you're thinking of ing a mask that's said to have been le by the Dan people in Africa. nsult the Robert Goldwater Li- y at New York's Metropolitan seum of Art (212-879-5500) for a ok on Dan masks. You'll notice most stand less than 13 inches f. If the one you're considering is er to 2 feet, there may be a prob- with it.

e's also wise to hire appraisers to e what you buy. They usually rge by the hour, typically \$125 to 0, or by the job. "Anyone who rges you a percentage is a crook," Buxton, who also operates a ser- that tracks mask prices. (You can h Art Trak at 214-979-0009.)

ost dealers and auction houses rantee what they sell, but some- es they get fooled. In May 1981 heby's pulled a mask attributed to Ibibio people in Nigeria from tion when experts who saw it on a



Wally Zollman's Indianapolis gallery
"I like to have things I can see and love."

Skill at backgammon, poker, bridge or chess may well get you further along the career path than your college degree or social connections. Parents, take note.

They play to win

By Philip E. Ross

WHICH looks better on a résumé?

(a) An undergraduate degree in marketing.

(b) An M.B.A. from a decent business school.

(c) A victory at an important bridge, poker, backgammon or chess tournament.

If you chose (c), you may be on to something. Successful games players are thick on the ground in the upper echelons of business, and often like to hire people with similar aptitudes.

"Give me a choice between 100 bridge players or 100 college grads, and I'll take the bridge players in a second—they're used to always being dealt a new hand," says Norman Weinstein, an international chess master and member at Odyssey Partners, the big hedge fund. "Backgammon's even better: You start from the same position, but the dice require you to play differently each time."

Wall Streeter James Cayne, chief executive of Bear, Stearns & Co., has won 11 national bridge championships and represented the U.S. in international tournaments 13 times. He thinks bridge is an excellent background for any fast-moving business. "In bridge you never face the same problem twice," says Cayne, whose boss, Alan C. (Ace) Greenberg, is also an accomplished bridge amateur. Berkshire Hathaway's Warren Buffett and CBS' Lawrence Tisch are both strong amateur bridge players.

Kim Woo-Choong, chairman of Daewoo Group, the \$41 billion (1994 sales) Korean conglomerate, is a strong amateur in the Oriental game of go. "I found that this has improved my capabilities to assess changes in the business climate," says Kim.

"There's a tremendous amount of risk-taking involved in each move—if you make the wrong move, your op-

ponent captures your stones. So the more you play the game, the more expert you become in taking calculated risks," he adds.

Media billionaire John Kluge earned money playing poker during his student days at Columbia, where he was admonished for his card playing (*FORBES*, Oct. 22, 1990). Other high-stakes poker players include financier Carl Icahn; Kentucky Fried Chicken's key developer, John Y. Brown Jr.; and Petrie Stores' late Milton Petrie.

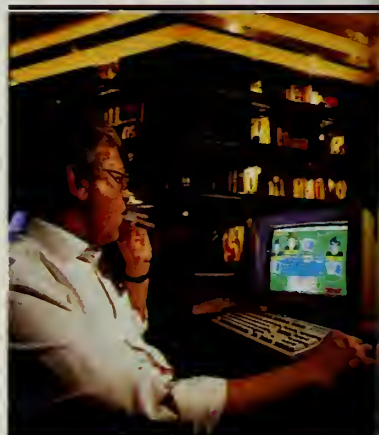
Most businessmen/games players say excellence in playing games of skill is a reasonably accurate predictor of success—perhaps more accurate than a Harvard M.B.A. Assuming, of course, that the candidate actually wants the job. "Most bridge players don't want to work," laughs Bear, Stearns' Cayne.

Whether the game is poker, gin rummy, bridge, backgammon or chess, at the top levels of play the skills rewarded are all vitally important in business. Among them are discipline, memory, coolness under pressure, psychological insightfulness, a readiness to stick to a strategy even when it produces losing streaks in the short run, and rapid and intuitive calculation of probabilities—of spotting opportunities and balancing risks against rewards.

Michael Becker, a champion bridge player and a trader on the American Stock Exchange, says each game helps form specific strengths. Backgammon and blackjack teach how to play the odds; poker teaches bluffing and other psychological skills; bridge, with its constant table chatter, adds social skills that can prove useful in the financial world's clubby atmosphere.

Chess? Becker is of two minds on chess. He says it emphasizes analytical

Photo: Parkhurst



Bear, Stearns' James Cayne

"In bridge you never face the same problem twice."

ability, but at the expense of social skills. (If you doubt this think of some of the great chess misfits, like U.S.' Bobby Fischer.) But Becker admits that one of his most successful trainees is a chess grandmaster: Ildar Henley, who now runs his options-trading firm, Tumbleweed Trading.

Becker says that of Amex's traders, 90 are accomplished game players. He claims he and Robert Rubin, his partner in bridge and business, have recruited and tra-



Go's Kim Woo-Choong playing go
Game hones your judgment of risk.

of those 90. "I can unqualifiedly
 that the people I've trained have
 performed the others," Becker
 ts.

our years ago Bankers Trust
 nted an audacious hiring experi-
 t. It ran recruitment ads in *Chess*
 and other games magazines
 oughout the world inviting players
 ply for jobs in the firm's trading
 ion. The ads drew over 1,000
 nés—mostly from chess players.
 r extensive winnowing, the bank
 viewed 100 respondents and
 15.

results: One hire—Anna Ahsharu-
 ra, a three-time Soviet women's
 es champion—is still with the
 , although she switched from
 ng to computer analysis. A
 dmaster, Maxim Dlugy, traded
 managed funds for four years
 re leaving the firm to work in the
 rging markets of Eastern Europe
 Russia, his native land. An En-
 grandmaster, David Norwood,
 ot take to the financial world and
 returned to professional chess.
 me Bono, a senior master, still
 es foreign exchange, but now for
 National Bank of Chicago.

That's a pretty good success rate,
 but not quite what BT was looking for.
 It wanted to clone Norman Wein-
 stein—before he joined Odyssey Part-
 ners in November, Weinstein was an
 international chess master turned BT
 foreign-exchange trader extraordi-
 naire. Weinstein insisted that he owed
 his success to his background in chess.

"In chess, you learn to plan varia-
 tions of play, to make a decision tree,"
 says Weinstein. "One thing I find
 myself better in than most people is
 developing a strategy and implement-
 ing it. I'll say, 'If he does this, we'll do
 that,' whereas many very, very bright
 people will talk in generalities."

He offers an example. Two years
 ago, when he was running a large
 European currency fund, Weinstein
 analyzed the possible breakup of the
 European monetary system. "To
 make a play on this involved shorting
 a number of currencies, which is very
 expensive to do," he says. "So I and
 people who worked with me did a poll
 of traders and economists, asked them
 to guess the probabilities of a break-
 up, and ran these through the risk-
 return analysis. The results made it
 clear that it would be profitable to
 keep on shorting the market, despite
 the day-to-day losses. It paid off in
 about one month."



Odyssey Partners' Norman Weinstein
Chess teaches concrete planning.

Weinstein now thinks that this kind
 of analytical thinking is fostered even
 more by other games he's mastered.
 (Note to parents: For an excellent list
 of books on games and the mathemat-
 ics of play, write Howard Schwartz,
 The Gamblers' Book Club, 630
 South 11th St., Las Vegas, NV
 89101.)

Blair Hull is an options trader who
 got his \$25,000 investing stake play-
 ing a card-counting strategy at the
 blackjack tables of Nevada. Today his
 Hull Trading Co., in Chicago, em-
 ploys some 40 traders—half of them
 accomplished games players.

Hull says the most important part
 of his blackjack experience was learn-
 ing how to manage his capital
 through losing streaks—clearly an im-
 portant discipline in trading. Hull:
 "When I think of my blackjack experi-
 ence, and the many ups and downs,
 and losing the bank on occasion and
 emotionally weathering the storms
 over five years, I think it trained me to
 have emotional stability."

Might Harvard's business school
 some day offer courses in blackjack,
 poker and backgammon? Might not
 be a bad idea.

Slam dunk

IN junior high school in Clinton, Md., Susan O'Malley got a B+ on a paper about what she wanted to be when she grew up—head of a professional sports team. “My teacher said it was good,” O'Malley says, “but not very realistic.”

So much for that assessment. Four years ago, at 29, O'Malley became president of basketball's Washington Bullets and the National Basketball

Association's first woman to hold the title. O'Malley started at the Bullets in 1986 as director of advertising. Stints as marketing director and executive vice president followed before she cinched the top spot.

With a dismal season-ticket renewal rate of only 62%, O'Malley started a monthly newsletter, staff calls to ticket holders, holiday cards and player receptions. Renewals now run 95%—not bad for a team with the second-worst record in the NBA. Radio revenue is up 68% since O'Malley brought production and ad sales in-house, and last year sellouts hit a record 20 of 42 games.

With a winning back office, O'Malley was ready to leave this year. But team owner Abe Pollin put O'Malley in charge of raising revenue for the new \$180 million arena he's building in downtown D.C. After that's open in 1997, O'Malley says she will move on.



Washington Bullets' Susan O'Malley with star forward Juwan Howard
Packing 'em in to watch them lose.

Music man

Steven Murphy
of Angel Records
Will Benedictine monks be the next Beatles?



LAST YEAR'S most unlikely recording hit—reaching number 1 on the classical charts and number 3 on the pop charts—was *Chant*, an album by Benedictine monks singing 6th-century music. Credit Steven Murphy, 40, head of EMI's \$70 million (estimated 1994 U.S. sales) classical division, Angel Records. It was Murphy's idea to package *Chant* to look like a 1970s rock album by The Who. Supported by a \$1 million marketing blitz, *Chant* has sold an astounding 3 million albums in the U.S. to date.

A rising star in publishing—Murphy spent six years as an editor at Simon & Schuster and moved up quickly to head of travel books—Murphy was lured to manage the moribund Angel label in

1990. Moving the company to New York from Los Angeles, Murphy brought manufacturing the U.S. from Germany and created new tracking systems to maintain lean inventory.

Next, Murphy decided to expand the line from strictly classical fare. “Let's find out what else our customers buy and give it to them,” he went after Broadway musicals, where RCA had dominated the market. Murphy signed Stephen Sondheim away from RCA, and is now snapping RCA's heels.

For an encore to *Chant*, Murphy has released *Vision*, the music of 12th-century nun Hildegard von Bingen. Since November, it has sold 200,000 copies.

It all ads up

WHEN THE DUST settled from Omnicom's surprise announcement last month that its TBWA unit was buying Chiat/Day, the big winner was Adelaide Horton, who will be chief operating officer of the combined \$2 billion (billings) ad agencies.

It's the latest in a string of successes for the 44-year-old North Carolina na-

tive, who started at Chiat/Day in 1980 to set up a new computer system and rose quickly to head of client accounting, then finance director.

Horton's rapid rise attracted attention. In 1990 rival ad agency Lowe Group recruited her as chief operating officer. But in less than a year, when Lowe's parent, Interpublic, started taking over some of her responsibilities, Horton quit to return to

Adelaide Horton
Virtual leader.



David Barry

Chiat, this time as chief operating officer. They helped develop the agency's much hyped “virtual office” concept, where everyone can work from home with faxes and cellular phones.

What's next? Horton wants in on the multimedia craze. “Whether that's running an agency or production company, says Horton, “I really think that's where the future is.”

"I've had to fly, sit in taxis,
attend meetings and live on snacks
for 24 hours straight. Now what?"



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"End of arrogance" at the National Education Association: readers respond

SIR: As an independent schoolteacher I am thankful that I am not a member of the National Education Association. Nevertheless, your article (*Feb. 13*) lost its force when it portrayed teachers as lazy money-grubbers. It was unfair to categorize all of us as either flaming liberals or Bible-thumpers. How about a little respect for the souls who dedicate their lives to this noble profession?

—RODRICK P. CRAVEN
Knoxville, Tenn.

SIR: While you chose to put a throw-back antiunion screed on the cover of the magazine, a more contemporary analysis buried inside discussed a transformation not dissimilar from what lies ahead for public education—Peter Huber's piece on the telecom revolution. After losing their long fight against deregulation, the Bell phone companies successfully morphed from stodgy bureaucrats to emerge as leaders in a business that demands customer focus, productivity growth and innovation. We will do the same in education.

—DELAINE EASTIN

State Superintendent of Public Instruction

California Department of Education
Sacramento, Calif.

SIR: The basic structure that resulted in this country's most socialized enterprise preceded the NEA and AFT by many years. Tenure policies and lock-step salary schedules that disregard marketplace value and merit weren't NEA's creation.

—WILLIAM A. BAINBRIDGE
Westerville, Ohio

SIR: The map of states with NEA strength contradicts the argument that the NEA damages education. The strong NEA states are also the states providing the best education as mea-



sured by student performance on national tests such as the SAT.

—JUSTUS HORSTMAN
Boulder, Colo.

SIR: I dropped membership when NEA supported "sensitivity training," "new math," and "Jesse Jackson for President." Now NEA recommends "outcome-based" and "whole language" education. It's their latest attempt to obfuscate learning and opt for political correctness without any fair sampling of teacher opinion.

—LARRY DADA
Ferndale, Calif.

SIR: The National Parent Teachers Association is a grass-roots, volunteer, private, nonprofit organization with an annual budget of less than \$6 million. It is independent, with a broad mission to improve the health, education and welfare of all children in this country. We have never excluded anyone from membership.

—KATHRYN WHITFILL
President
National PTA
Chicago, Ill.

SIR: As a teacher since 1956—and as a person who is neither Republican nor Democrat—I have long been in favor of a voucher system. This would reward teachers who want to teach, free from a top-heavy, authoritarian, over-

paid, unresponsive, uncaring and reaucratic managerial class.

—EDWARD C. BRANDT JR.
Radford, Va.

SIR: Leslie Spencer and Peter Br low have scored again. Victimize a 25-year-old law that has cost taxpayers an average of \$90,000 year per school district just to pay the process of bargaining, Pennsylvania has achieved such national rankings as first in teacher strikes, sixth in adult literacy, and 45th in SAT scores. And in the state boasting "America starts here," individual freedom for teachers has been banished. Your article is a call for every parent, citizen and yes, teacher, in the nation, to return our schools to the citizens to pay for them, the parents who care for them, and the children for whom we are supposed to exist. Kick out special interests, open up the system and let our competent and dedicated teachers do what they do best.

—SUSAN STAUB
President

Pennsylvanians for right to work,
Harrisburg, Pa.

SIR: Criticize the NEA if you wish, but don't pick on teachers! Problems in the schools are reflections of changes in the fabric of our society.

—JERI ANNE HAMPTON
Atlanta, Ga.

SIR: Here is an example of one "outcome-based education" idea that developed when I was on a school board five years ago: "95% of school seniors will read at the 5th grade level." We would have made it tougher, but state law around graduation would not allow it. Any student who did not reach this standard would attend adult education classes at no charge.

—BRUCE M. TYLER
Plymouth, Minn.

SIR: I'm sending a copy to Governor John Engler. School lobbyists are trying to sweep our state's current revenue surplus into a ridiculous "Education Stabilization Fund." Perhaps the governor can shake a FORBES in his face, and say "enough."

—JAMES NEILL
Ferndale, Mich.

Even at four,
you had a good head for business.



Face it, your success is no accident. You didn't get to this point by being just like everyone else. Doing just like everyone else. Or making the same choices as everyone else. Maybe you ought to consider The Quiet Company, Northwestern Mutual Life. You'll find yourself dealing with a professional who knows the value of hard work and the need to protect its rewards. An agent who's part of the sales force ranked best in the country. You'll find a company named "the most financially sound life insurance company" in *Fortune*® magazine's annual survey. When you think about where you and your family are headed, choosing Northwestern Mutual Life makes a lot of good sense.

**Northwestern
Mutual Life**
The Quiet Company

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old small growth stocks be on the edge of a rally? Periods of sharply rising corporate earnings and peaking interest rates can often precede a bull market for small growth stocks. The prerequisite is in place; the end depends on whether the Fed-Reserve will stop hiking rates. Morgan Stanley's Michael Sorell says that when the small-stock rally starts, the winners are likely to be those with strong growth in profits and sales—and high returns on equity. By these measures, Sorell is currently less inclined to recommend stocks such as biotech, cellular communications or, if the company is a startup, cable television. So what does Sorell like? He points to Festa Insurance, a property underwriter that is a rarity in consistently showing an underwriting profit. Another pick: Broderbund Software, publisher he expects to sharply increase its profits this year.

Special focus

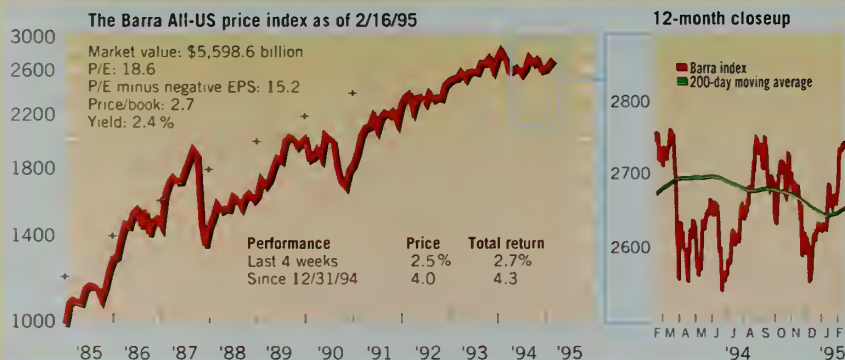
Trouble ahead? These eight firms, though still profitable, have seen steady erosion in their profit margins (net income divided by sales) over the past three years. Among the possible explanations are increasing competition, falling efficiency or a deteriorating balance sheet—none encouraging.

Diminishing returns

Company	Net margin	
	1994	1991
Archer Daniels	4.3%	5.5%
Bruno's	1.4	2.7
Geodynamics	1.6	5.6
Octel Communications	3.3	11.1
Penwest Ltd	3.8	7.9
Riser Foods	0.1	0.9
Robbins & Myers	5.2	11.0
Synetic	2.2	12.6

Source: Market Guide Database Service.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	1.8%	-0.8%	-3.2%
S&P/Barra Growth index ¹	2.8	8.9	0.0
S&P/Barra Value index ²	2.8	3.1	0.0
Dow Jones industrials	3.0	1.7	0.0
S&P 500	2.6	3.2	0.0
NYSE	2.4	0.7	-1.7
Nasdaq	3.9	0.4	-1.3
Amex	2.1	-5.6	-8.2
EAFE ³	-0.2	-4.5	-9.1
CRB futures index ^{4,5}	0.4	3.2	-5.8
Gold ⁵ (Comex spot)	11.7	-1.6	-11.4
Yen ⁵ (per \$US)	-2.0	-6.4	1.8
Oil ⁵ (W Texas Intermediate)	0.3	30.7	-54.8

The best and worst performing stocks

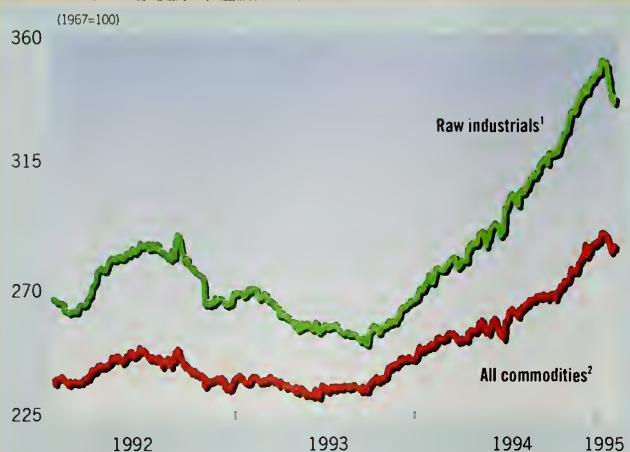
Best	Price	2-week change	1995 EPS ⁶	Worst	Price	2-week change	1995 EPS ⁶
Actel	12 1/2	52%	\$ 0.62	Scherer Healthcare	9	-54%	NA
Club Car	24 7/8	50	1.26	Corimon ADS	4 5/8	-34	NA
Alliance Semiconductor	38 3/4	41	1.20	Bufete Industrial ADS	8 3/8	-32	\$ 1.12
Gaylord Container	12 1/4	36	1.58	Cerplex Group	8	-30	1.00
Atria Software	38	35	0.59	TFC Enterprises	5 3/4	-29	0.85

The best and worst performing industry factors⁷

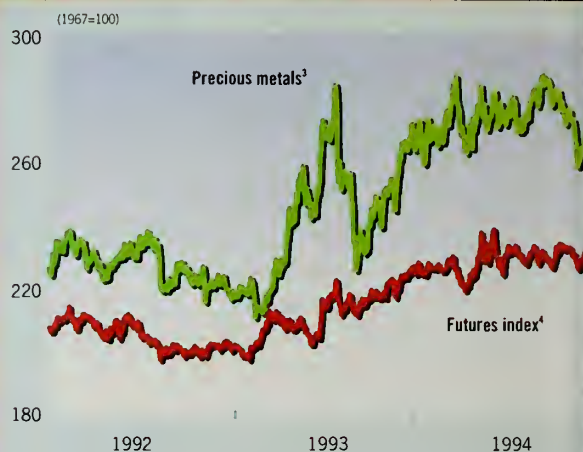
Best	2-week change	Since 12/31/94	Worst	2-week change	Since 12/31/94
Electronics	7.7%	14.1%	Pollution control	-7.3%	2.1%
Paper	6.1	10.5	Health care	-1.3	6.1
Iron and steel	5.8	-3.1	Tobacco	-1.2	4.0
Trucking	5.5	-7.4	Electric utilities	-1.2	5.9
Railroads	5.4	11.1	Precious metals	-0.9	-4.9

Data for period ending 2/16/95. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. exchanges. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Source: Knight-Ridder Financial Publishing. ⁶ Data. Source: IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional allocations in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

Knight-Ridder-CRB spot indexes



Knight-Ridder-CRB futures indexes



The 5% increase last year in the Commodity Research Bureau Futures Index of 21 foods and raw materials was due in large part to sharp price jumps in base metals like copper and to more modest increases in oil and lumber prices. Another measure of raw material prices—the Journal of Commerce Industrial Materials Price Index, which covers 17 commodities—came in with a 22% increase. That's the steepest rise in this index since 1973, when the OPEC oil shock caused a 51% jump.

Is 1995 likely to be a repeat of 1994? Merrill Lynch futures strategist William O'Neill doesn't think so. O'Neill doesn't expect any sector to dominate the commodities market—unlike 1994. He says that the unusually mild winter, for instance, means there's plenty of fuels like nat-

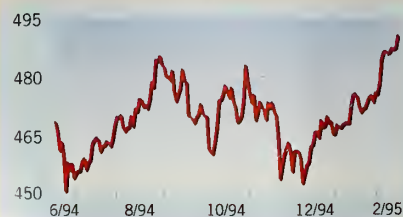
ural gas. All things considered, O'Neill doesn't think commodity prices will have much of an impact on inflation at the retail level.

Despite a fairly well organized (and successful) South American coffee cartel, there is little likelihood of a repetition of last year's threefold price increase in coffee prices, and there are ample worldwide supplies of corn and sugar. Another thing that bodes well for food prices is an easing (or elimination) of price supports for corn and wheat.

The precious metals markets, too, don't reflect inflationary expectations. Gold prices traded in a fairly narrow range (\$370 to \$400) over the last 12 months, recently settled near the low end of that range.

Commodity spotlight

S&P 500 futures index⁵



June 1995 S&P 500 futures contract bottomed out in December and is now 1.3% above the S&P stock index. Does this mean futures players are bullish? Unfortunately, no; the premium in an index future's price reflects nothing more than the excess of short-term interest rates over the dividend yield of the index.

Cash and futures prices

Spot indexes

Index⁶	Value	3-mo change
All commodities	285.86	4%
Raw industrials	337.84	2
Metals	295.99	-2
Textiles	281.32	6
Foodstuffs	224.40	6

Futures indexes

Index⁶	Value	3-mo change
KR-CRB index	234.36	0
Precious metals	263.94	-5
Industrials	276.16	1
Grains	182.94	-2
Livestock & meat	181.46	3

Spot commodity prices

Index	Price	3-mo change
Steel scrap (short ton)	\$142.50	3%
Copper scrap (pound)	1.01	3
Print cloth (sq yard)	0.89	0
Corn (bushel)	2.27	12
Soybean oil (pound)	0.29	-6

Futures prices

Index	Price	3-mo change
Apr platinum (troy oz)	\$413.90	-2
Apr crude oil (barrel)	18.34	5
May copper (pound)	1.30	8
May cotton (pound)	0.93	21
May Chi wheat (bushel)	3.61	-3

Note: All prices as of 2/15/95. ¹Composed of 13 commodities. ²Composed of the 13 raw industrial commodities plus 10 foodstuffs. ³Gold, platinum and silver. ⁴Composed of 21 commodities. ⁵June 1995 contract. ⁶Base for spot and futures indexes (1967=100). Source: Knight-Ridder Financial Publishing.

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KNIGHT-RIDDER

More funds are shaking up the management of the companies they own shares in. Does this enhance investor returns? Or just the fund manager's ego?

Power trips

By Richard Phalon

A STREAK of militancy is running through the mutual fund industry:

■ David Herro, manager of the \$1 billion Oakmark International Fund, headed an investor group that pressured the board of Britain's Saatchi & Saatchi Co. to oust Maurice Saatchi as boss of the world's fifth-largest advertising agency.

■ Michael Price, head of the \$8 billion Short Hills, N.J. Mutual Series funds, whipped up a shareholder revolt that forced the sale of Michigan National Corp., a chronic disappointment to shareholders, to National Australia Bank Ltd.

■ James Craig, manager of the \$9.8 billion Janus Fund, along with several other fund managers, joined last month's battle for control of Santa Fe Pacific. The funds insisted on being given a detailed review of the competing Burlington Northern and Union Pacific bids as they were made. Craig says that his fund's 5-million-share stake in Santa Fe made him a "minority owner that had to be accommodated."

Fidelity Management took on much the same role in 1993 when one of its analysts joined a group of institutional investors that put "informal pressure" on top management of Eastman Kodak to accelerate a long-delayed reorganization of the company. One result: the resignation several months later of Chief Executive Kay Whitmore.

Such activism is not entirely new. Decades ago the managers of big mutual funds sometimes sat on the boards of their largest portfolio companies. But the current era of portfolio manager activism seems largely inspired by the \$78 billion California Public Employees' Retirement System. A few years ago Calpers' then-

boss Dale Hanson made headlines by complaining loudly about poor management at such big companies as General Motors, IBM and Sears. The fund's kvetching helped precipitate the departure of GM boss Robert Stempel. For the last nine years, the giant pension fund has released an annual "hit list" of underperforming companies to shame their boards of directors into pressuring management. Over the four fiscal years ended



last June, Calpers, despite its size, has edged ahead of the S&P 500 index.

Pursuing a different vein, the junk bond fund Fidelity Capital & Income has insinuated itself into bankruptcy reorganizations, and John Neff, manager of Vanguard Windsor Fund, admits to having "some involvement" with management changes at Chrysler Corp. Michigan National is only the latest in a long series of companies that Price of Mutual Series has profitably helped reshape. Others

include Sunbeam-Oster Co. and Ninth Laboratories.

Such shakeups are coming and fast now—and the explosive growth of the mutual fund business makes more activism inevitable. Robert Pozen, Fidelity's general counsel, puts it: "The bigger they become, the more large position holders, the more active you're likely to become."

This raises a question: Should you buy a fund with a record of fund managers' moves to maximize shareholder value?

The answer: Probably not. If a fund rocks the boat, it sometimes takes on water. Saatchi & Saatchi well have needed better management but Oakmark's Herro may well have gone too far in forcing out Maurice Saatchi. The flashy adman probably began forming a rival agency; a series of retaliatory moves dropped Saatchi shares to 106¢, more than 40% below its peak a month high. Still, says Herro, he doesn't regret it, because the company is a lot better off in the long term."

Another problem: Even if a fund grabs a moribund company by the throat and shakes it back to life, the rest of the fund's portfolio may continue to lie dormant.

Take the Gintel funds, which own 13% of T-shirt maker Oneita Industries. The funds' average cost was 13¢—but by 1993 the stock fell to 5¢ as Oneita's trolling shareholder decided to sell its 25% stake and put the whole company up for sale. Fund manager Robert Gintel wanted that Oneita would get sold cheaply, so he led an activist group that bought the whole block. The Gintel funds could

join the group, although Gintel himself is now chairman of Oneita.

Thanks largely to his intervention, Oneita's shares have rebounded 12¼¢—saving the two Gintel funds from a large loss. Only trouble after his Oneita activism, the funds still lost an average of 1¢ last year.

Moral: Pick a fund manager for his portfolio skills, not his ability to throw his weight around the boardroom.

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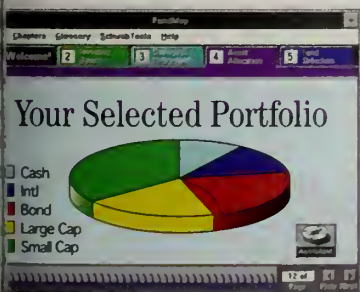
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For investors who like foreign stocks but not foreign volatility, a balanced international fund makes sense.

Balancing act

By Mary Beth Grover

BALANCED FUNDS—stocks and bonds in a single portfolio—are supposed to deliver most of the return of stock funds but with less risk. They don't always; last year was a bad one for balanced funds. But most of the time, bonds tend to zig when stocks zag.

Does this balancing act work as well outside the U.S.? In theory, yes. According to Ibbotson Associates, the Chicago-based securities researchers, since 1980 a model fund of 40% foreign bonds and 60% foreign stocks produced a 14.3% compound annual return in U.S. dollars. That's nearly all the return of foreign stocks, but it came with just three-quarters of the risk. (Again, last year was bad for the blend, with a return of 6%, a bit worse than the 8.1% for pure foreign stocks.)

It's hard to test this model in reality, since few foreign balanced funds exist. The biggest is \$1.3 billion Fidelity International Growth & Income; it keeps at least 25% of assets in bonds. "Adding asset classes lowers the volatility of the portfolio, without necessarily sacrificing returns," says manager Richard Mace Jr.

With lower exposure to stocks than other foreign funds, Fidelity International Growth & Income drags behind in bull markets; over the past five years its 5.8% compound annual return is only a smidgen above average

for the foreign fund class. But it has been 14% less volatile than its peers.

Lately Mace has been selling stocks and buying bonds. At 38% of assets, bonds are near an alltime high in his portfolio; foreign stocks are just 50% of assets. The rest is in cash.

How does Mace decide between stocks and bonds? With stocks, he pays little attention to dividend yield or even earnings yield (earnings per share divided by stock price). Instead, he looks mainly at cash flow yield—net income plus depreciation per share, divided by stock price. Explains Mace: "Management can do all kinds of things to distort earnings."

Mace thinks foreign stocks become attractive when the ratio of their cash flow yields to nominal local bond yields is well above that ratio's long-term average. Take Japan, his largest country holding, where he has 28% of the fund's assets. In Japan, the cash flow yield on stocks is now about 10%, slightly more than twice as high as the yield on bonds. Historically, the cash flow yield has averaged about 1.75 times that of bonds, so Mace has put 25% of the fund in Japanese stocks, but only 3% in Japanese bonds.

In the U.K., on the other hand, where the cash flow/bond yield ratio is unusually low at 1.3, he has twice as much invested in bonds as in stocks.

And he's betting big on bonds in Germany, where the cash flow yield is just 1.7 times the bond yield. His favorite: five-year German government bonds with 9% coupons.

Two of Mace's stock ideas: Koninklijke PTT Nederland, the Dutch telephone and postal operator with American Depositary Receipts traded over-the-counter, and German electrical giant Veba AG, which is considering filing for an ADR listing.

No-load Fidelity International Growth & Income charges a reasonable 1.26% in annual expenses, a more costly choice: G.T. Global Growth & Income (4.75% front-sales charge or 5% maximum back-end load, up to 2.3% in annual expenses). The G.T. fund's manager, Nicholas Train, now has 30% of \$645 million in assets in bonds, nearly twice as much as usual. "In almost every market, real yields are well below their ten-year average," says Train. "Bonds look quite cheap compared to themselves and also to equities." He has 5% of the fund in long U.S. Treasuries and another 6% in ten-year German bonds, where he hopes for an extra kick from the currency.

Two closed-end funds take a balanced approach to emerging markets: G.T. Global Developing Markets (2.3% annual expenses; trades at a discount to net asset value); and Templeton Emerging Markets Appreciation Fund (estimated expenses, 2.5%; selling at a slight discount).

If you have a lot of money to invest abroad, you probably should buy a stock fund and bond fund separately. That way, if one does well and the other badly you can take a tax loss on the loser. But if you want to put just a few thousand dollars overseas, a balanced foreign fund makes sense.



A dark, moody photograph of a wooden chair with a curved back and vertical slats. A single, speckled egg sits on the seat of the chair. The lighting is dramatic, highlighting the egg and the chair's structure against a dark background.

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Tired of being snubbed when you try to get a hot new issue? Consider the new issue of a foreign company.

Coming to America

By John H. Christy

IT'S A FACT of life that new issues of really attractive companies—fast-growing small outfits like General Magic and Global Village—are greatly oversubscribed. Institutional investors can get shares of hot issues at the offering price, but individual investors often have to buy at premiums of 30% to 80% in the aftermarket.

If second-class treatment isn't for you, consider expanding your horizons to include the new issues of foreign companies raising capital in the U.S. As with a domestic small-company new issue, the offering price is the same for all comers. But unlike the domestic offering, the foreign one is much more likely to come from an industrial or utility giant with a lot of shares to offer. Often, shares are simultaneously offered in the home market as well. The offering price for a foreign company is probably all you'll have to pay to get shares. Among the foreign outfits planning to raise capital in the U.S. soon are VME Group N.V., the \$1-billion-plus (revenues) Dutch construction equipment mak-

er, and Videotron Holdings Plc., the \$32 million British cable television company.

"The biggest advantage of foreign deals is that they're so liquid," says William Smith, an analyst at Greenwich, Conn.-based Renaissance Capital. As evidence, he cites the rarity of large aftermarket premiums on the first day of trading for foreign new issues.

The table lists ten of the largest new issues in the U.S. of foreign companies last year. Most of these shares are now listed on the New York Stock Exchange, some of them on the Nasdaq. They all have to provide financial statements conforming to U.S. accounting principles and follow the rules of the Securities & Exchange Commission.

Foreigners are flocking to the U.S. because this is where the most money is. Moreover, American markets are much more receptive to new issues—espe-

cially those of technology-based firms—than markets back home. Additionally, few foreign markets can provide the aftermarket liquidity and research services Wall Street offers.

The 1984 privatization of British Telecom was followed by a worldwide selloff of state-owned phone companies, many of which have had offerings here. "The U.S. market has the most thorough understanding of the whole communications revolution," says Scott Mead, a London-based partner at Goldman, Sachs & Co. who specializes in telecommunications and cable TV deals.

Goldman, Sachs was lead underwriter in the U.S. for last April's \$5 billion offering for TeleDanmark Denmark's phone and cable television company. The offering occurred simultaneously in several countries with the U.S. taking the largest slice. "For companies like TeleDanmark offering a significant part of their debt in the U.S. is almost a necessity," Mead says.

Last year 35 foreign firms raised nearly \$10 billion in equity capital in the U.S., says Renaissance Capital. Smith, quadruple the amount for 1993. The small table lists several forthcoming deals.

In registration

Company/business	Country
Asia Pacific Resources/pulp & paper	Singapore
ASM Lithography/equip for mfg semicon	Netherlands
Southern Peru Copper/copper	Peru
Videotron Holdings/cable tv	United Kingdom
VME Group/construction equip	Netherlands

Foreign companies that went public in the U.S.

Company/business	Country	Recent price*	Price change since IPO
•Bell Cablemedia/cable tv in UK	United Kingdom	21½	27%
British Sky Broadcasting Group/satellite & cable tv	United Kingdom	25¾	7
•Comcast UK Cable Partners/cable tv in UK	Bermuda	18	20
Grupo Iusacell/telecommunications	Mexico	11½	-59
•Indigo/mfr offset color printing sys	Netherlands	26¾	32
IndoSat/satellite telecommunications	Indonesia	36	12
MetroGas/gas distribution	Argentina	8¼	-37
SGS-Thomson Microelectronics/integrated circuits	France	25½	15
TeleDanmark/telephone utility	Denmark	25	6
•TeleWest Communications/cable tv; telecommunications	United Kingdom	28¾	0

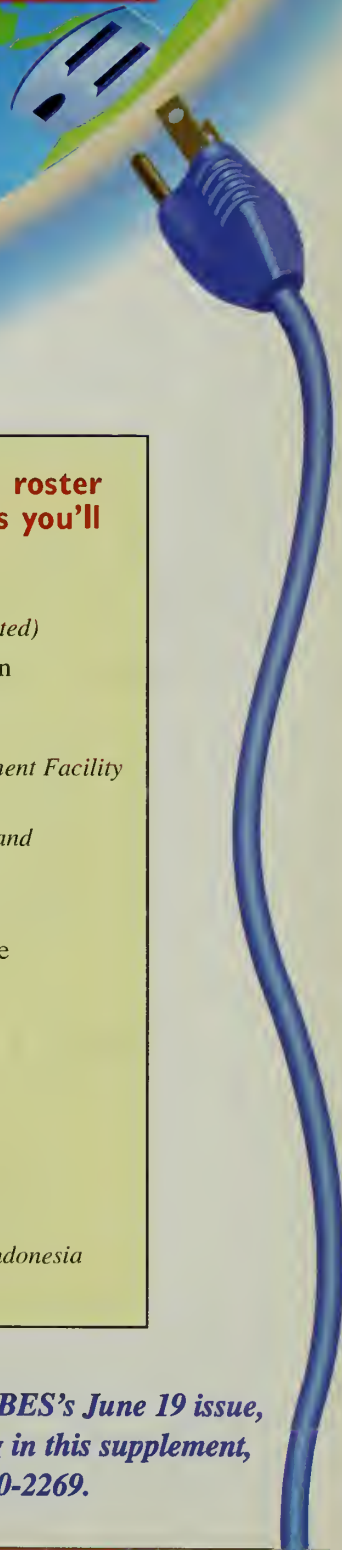
•Traded on Nasdaq; all others trade on NYSE. *As of 2/17/95.

The U.S. is a land of opportunity for foreign firms seeking equity capital. The five companies above are planning public offerings this year; the ten at left have already had their U.S. initial offerings.

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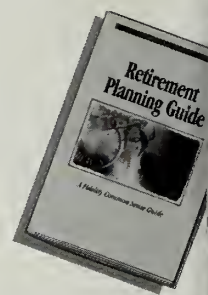
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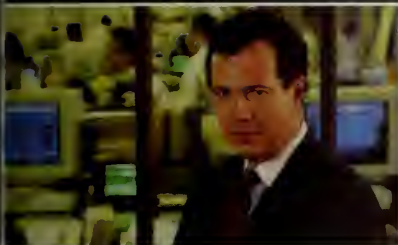
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iven the flattening of the yield curve, Ginnie Mae's 15-year fixed-rate mortgage passthroughs are a girl's best friend.

Quickie mortgage bonds

BY DAVID P. GOLDMAN



David P. Goldman is a managing director at Bear, Stearns & Co.'s Financial Analytics & Structured Transactions Group.

HISTORY IS A GUIDE, 1995 will be a frustrating year for bond investors. Every time in the past that the Federal Reserve forced short-term rates up to levels close to or greater than long-term rates, bond yields wandered erratically for months before the market found a new direction. Yes, the 30-year Treasury bond's yield has fallen from a September high of 8.2% to a recent 7.7%. But that doesn't mean buy the bond. A 30-year Treasury remains a gamble whenever the course of interest rates is as uncertain as it is today.

If you don't want to gamble, consider buying into a pool of adjustable-rate mortgages, described in more detail in an earlier column (Jan. 2). These mortgage pools remain a superb alternative to short-term Treasury notes, offering higher yields (currently near 8%) with very little risk of capital loss should rates go further. Their main drawback is low liquidity: If you want to sell one before its 30-year maturity is up, you're going to get a chintzy bid from a bond trader.

If you don't mind a little bit of a gamble but do mind poor liquidity,

I've got a different recommendation: pools of 15-year fixed-rate mortgages. These mortgages—let's call them quickie mortgages—are a little chancier in times of rising interest rates than adjustable-rate mortgages. But the quickie passthroughs are a lot more liquid. Should you need to bail out before 15 years is up, you can expect to get a decent bid from a retail bond broker.

Given today's yield curve, I think the risk/reward tradeoff favors shorter-term mortgage securities over long-term ones. Today investors give up barely 0.15% in yield if they buy 15-year rather than 30-year passthroughs. In turn, the 15-year maturities have much less exposure to losses than do 30-year maturities if rates climb back up.

Two kinds of issuers of quickie-mortgage pools carry government guarantees: the Government National Mortgage Association, or Ginnie Mae, and the Federal National Mortgage Association, or Fannie Mae. The interest sensitivity, or duration, of a quickie mortgage is roughly that of a five-year Treasury bond. But the passthrough paper yields about 0.6%

more than the Treasury.

That 60 basis point spread compensates investors for two things. One is that the Ginnie Mae or Fannie Mae is subject to state income tax, while the Treasury is not. The other is the risk of prepayment. If interest rates fall sharply, homeowners will prepay their mortgages and mortgage bondholders will be left with cash to invest at lower yields.

You minimize the prepayment risk by selecting a quickie passthrough with a low coupon (6.5% to 7%) and a discount price. That's because interest rates would have to fall by 1% to 2% before homeowners found it worth their while to prepay the mortgages underlying one of these pools.

Nothing is free on Wall Street. If you minimize the prepayment risk—perhaps because you have a gut feeling that interest rates will indeed fall this year—you sacrifice a little yield. Yields on discounted mortgages are a tad lower than yields on higher-coupon mortgages.

Whichever Fannie Mae or Ginnie Mae quickie you buy, you are going to wind up with a yield near 8.1%. To do better in a bond with the same duration, an investor would have to buy a 5-year corporate bond with a mediocre Baa rating. Clearly, there is less risk in the Fannie or Ginnie Mae.

As I explained in *FORBES'* annual money guide last June 20, mortgage-backed bonds tend to do well when interest rate volatility falls. Lower volatility means that the market thinks that prepayments aren't likely. That's why the mortgages I have been recommending did so much better than Treasuries during the last six months.

I expect volatility to keep falling this year because experience shows that long-term rates tend to get stuck in a rut when the Fed flattens the yield curve. That's disappointing for bond bulls hoping for a quick score, but good for investors who want strong returns from passthroughs.

The accompanying chart shows how different Fannie Mae passthroughs are likely to fare in a variety of interest rate environments. Note that if rates rise by a percentage point or more, you would be better off owning a quickie mortgage than owning the conventional 30-year variety.

Sensitivity

Issue	One-year Fannie Mae total returns if rates:		
	fall 1%	don't change	rise 1%
8.5% 15-year	10.34%	8.43%	6.08%
7.5% 15-year	11.42	8.52	5.34
8.5% 30-year	12.04	8.87	4.95
7.5% 30-year	13.24	8.74	3.85

Source: Bear, Stearns & Co.

You give up yield on the 15-year passthroughs, but you gain safety.

Investors travel in herds as much as they ever did.
The herd is still full of bears.

Advanced fad avoidance

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. His third book is *100 Minds that Made the Market*.

"WILL THE FED'S recent rate hike finally break the market's back?" A perfectly reasonable question, which I heard during a recent Canadian speaking tour. What's wrong with the question is how often I heard it: over and over again.

I was giving talks to several audiences a day, organized by the Canadian retail broker Midland-Walwyn, on a tour that started in Halifax and ended in Vancouver. What startled me was how much the questions were the same from one city to the next.

The investors who attended these sessions were intelligent and at least a little versed in the market, since they had money in the Canadian equivalent of an IRA. But there was so little variation in what was on their minds: the peso, Canada's "debt crisis," the U.S. versus Canadian dollar, Orange County, Clinton versus Congress, the financial impact of the Kobe earthquake—all the stuff of page one and talking-head shows. None of it was terribly original or unique as would be needed to surprise a market. Surprise is the only thing that moves markets.

This should be good news to anyone who likes to bet against prevailing trends. Sometimes I worry that there

are so many people trying to be contrarian that they constitute a new herd. But the relentlessly similar questions I heard on this tour reassured me that there is still plenty of mob rule on Wall Street, and plenty of money to be made betting against it.

Here are four basic tenets of contrarianism that answer lots of contemporary questions generically:

1. If most folks you know agree with you on a price move or some event's impact, don't take this as confirmation that you are right. It is a warning; you are wrong. Being right requires aloneness, and willingness to let others see you as maybe nuts.

2. If you read or hear about some investment idea or significant event

Avoid the media?

Heavens, no. Know what is being talked about and therefore doesn't count.

more than once in the media, it won't work. By the time several commentators have thought and written about it, even new news is too old.

About here, I am often asked, "Do you urge avoiding the media?" Heavens, no. You have to read newspapers and watch television to know what is being talked about and therefore doesn't count. By exclusion you then save effort for that which may count.

Case in point: high short-term interest rates, giving rise to a nearly inverted yield curve. Such a curve is always bearish when unnoticed. But I'm not bearish now: Today's interest rate concerns are too much discussed. There's much truth in the old saw, the

stock market climbs a wall of worry.
3. The older an argument is, the more power it has. So, for example, inflation fears may have moved markets in 1994, but sometime early in 1995 that view will run out of steam. May it already has. Bearishness may yet be vindicated in 1995, but you will need new fuel to justify it.

4. Any category of security that's hot in the last five years won't be hot in the next five years, and vice versa. Emerging markets, junk bonds, oil, gold stocks—you name it, extreme heat and cold can't sustain more than about five years. So is that which has been long sizzling.

Stocks, dampened by 1990's slump and a weak 1994, have been mediocre performers over the last five years. That leaves room for them to do fairly well in the next five. Here are some stocks selected from industry groups that have been weak in the last five years, and that I think will do well in the years ahead.

Ameron (34) has gone nowhere in the last five years, and is down from my Jan. 1994 pick of it at 37, and way down from its 1990 peak above 50. So, where now? Both of its lines of business, pipes and coatings, are starting to click at once. I expect that the profit margin will climb maybe 50% from 2% in 1994 to 3% in 1996. The stock yields 4% and sells for below book value, 12 times 1994's earnings and 30% of annual revenue.

I am so encouraged by all the flack caught for picking Bankers Trust last month that I thought I would try to pick more big banks. *BankAmerica* (4) has the retail locations to die for. California slowly revives itself, and the sleepy giant of a stock will wake up. Nine times earnings, 1.1 times book value, 3.5% dividend yield.

Bank of New York (32) is strong nationally in a series of niche services such as global custody for institutions and generic index products. It sells at 8 times earnings and 1.4 times book value. It yields 3.7%.

Culbro (14) should see a turnaround in earnings this year. Boomers have fallen for cigars, and time. I can't tell if it's a fad or a trend, but it's big and factories can't keep up with demand. This stock trades at 3 times revenue and half of book value. If it gets to 25.

Some markets go up and down with the calendar. A couple of market letters successfully exploit that fact.

For everything a season

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

CAN YOU BEAT the market with a trading scheme that looks at nothing more than the calendar? It sounds too easy, but I am following two letters that have had considerable success doing just that.

One is the *Seasonal Trade Portfolio*, polished by Frank Taucher. He tracks 70 commodities, ranging from hogs to deutsche marks, looking for seasonal patterns. From these patterns Taucher creates trading rules that go into a model portfolio of long and short bets.

For 1994 this model portfolio would have earned you a 117% gain, according to the *Hulbert Financial Digest*. This assumes you started with \$5,000 in cash margin, as Taucher recommends. He came up with this amount because he makes sure the portfolio rarely, if ever, needs more than \$15,000 in initial margin. He then throws in another \$20,000, representing the maximum loss he will tolerate in a given year.

A note of caution: Commodities orders blow hot and cold. The fellow who makes 117% one year may easily

lose 60% the next, leaving you poorer than when you started. Taucher claims an excellent performance over the period from 1985 through 1993, but, since the *HFD* began following this letter only a year ago, I can't vouch for the long-term results.

For the next few months, Taucher is bullish on heating oil and soybean meal, and short the deutsche mark.

The second of the two seasonality letters has much less spectacular results, but it goes back (in my database) a long way. That letter is *Market Logic*, published by the Institute for Econometric Research. The Institute's "Seasonality" portfolio invests in the stock market only around the turns of the month and year and around exchange holidays; otherwise it sticks with cash. The portfolio is invested in the market only about 40% of the time. Despite its low risk, it nevertheless has equaled the market's return since 1982—an impressive risk/reward combination.

I am baffled by evidence that beating the market (on a risk-adjusted basis, that is) can be so simple, but the system seems to work. Take the January Effect, for example, which is the best known of the stock market's seasonal patterns. This is the tendency of small-company stocks to outperform large-company stocks during the last days of December and the first days of January. Exploiting the January Effect is easy: At the end of the year enter a spread that is long Value Line futures and short S&P 500 futures; after the New Year close out the positions.

Had you picked Dec. 20 and Jan. 9 as your trading dates, the spread would have been profitable each year since 1982, when Value Line futures

were created. There is a certain amount of hindsight in this record: Had you used the slightly different dates favored by some aficionados of the January Effect, you would have lost money some of the time. But any way you look at this phenomenon, there is something more than random movement at work. Even more impressive, the strategy's profitability hasn't deteriorated as more and more investors have known about it.

The predictably skeptical academics have tried to explain away the January Effect. One explanation of what is going on is that the over-the-counter brokers who control many small-company stocks tend to be buyers (at low bid-side prices) in late December, but sellers (at higher ask-side prices) in early January. If this is true, then you can't profit from the January Effect by buying and then selling individual stocks. But the Value Line contract, traded in Kansas City, is not adjusted for the bid/ask phenomenon, so you can make real money from the statistical aberrancy by trading futures. At least you could have during the past 13 years using

I am baffled by evidence that beating the market can be so simple.

Dec. 20 and Jan. 9 as your trade dates.

Another academic objection to these seasonal patterns: The percentage moves—for all but the January Effect—are far too small to overcome trading costs. Thus, calendar patterns do not really violate the rule that you can't beat the market.

But you can, and you don't have to use futures to do so. Use the calendar patterns to switch in and out of no-load mutual funds, on which trading costs are nil. Your challenge in following the Institute's Seasonality portfolio is finding a no-load fund that won't throw you out for pulling off the recommended 30 or so switches every year. The Institute currently recommends 19 funds, including Evergreen and Gabelli Growth. Most of these funds either impose no restrictions on frequent trading or, at worst, charge a nominal fee. ■

While the faddists chase Mexican tesobonos and Peruvian floaters, the smart investor earns 30% from local car washes and similar deals.

Where the grass is greenest

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Greenwich, Conn.

WHEN THE CONVERSATION turns to where we are in the business cycle, there seems to be a massive case of collective denial. Economists don't want to admit we are in the middle of a smoking recovery, that capacity is getting tight and that prices are starting to rise more rapidly.

Against this prevailing sentiment are the numbers. GDP growth in the fourth quarter was 4.5%, with fixed investment rising 17.6% and capital spending up 20.2%. The inflation figures seem especially strong. True, the January Producers Price Index rose by only 0.3%, but intermediate goods prices were up 1% and raw materials prices, excluding food and energy, rose by 3%. Between November 1994 and January of this year raw materials prices increased at a sizzling 35.6% annual rate. Tight commodity markets and rising industrial capacity utilization are finally starting to appear in the official indexes.

These conditions mean just one thing: The Fed isn't finished tightening. And when interest rates go up, price/earnings multiples fall, as they have already in the emerging—excuse me, submerging—markets.

For active people trying to figure out what to do with their capital, I have a suggestion. It may sound terribly unfashionable in these days of derivatives and emerging markets, but the greatest emerging market of all is right in your own backyard. Here returns are in excess of 30% per year. You can influence the outcome of your investment through personal involvement. And you can use inside information—legally!

I am referring, of course, to the private equity market, where billions of dollars are invested each year in ordinary privately owned local businesses. It may not be sexy to tell your neighbor that you have invested in a car wash rather than in a hedge fund specializing in Peruvian inverse floaters. But it is a lot safer and probably a lot more profitable.

In private equity investments you can quickly grasp the factors that influence the business because you can spend time with the management ask-

Despite derivatives and emerging markets, the greatest investment of all is right in your backyard.

ing questions. Frequently, you can invest alongside managers who own significant equity themselves, aligning your interest with theirs. And if something really goes wrong with the business, you can march into the CEO's office and ask what's going on. Try that with Peruvian floaters or Mexican tesobonos.

Private equity investing does involve work. It's not just a matter of picking up a phone and placing an order. And private equity investments

are illiquid, often taking five years or longer before you can take any cash out. That is why private equity investors expect to earn annual returns of 25% to 35% on their invested capital.

There's no shortage of candidate companies. There are more than 40,000 private companies with annual sales between \$25 million and \$100 million and many times that number in the \$1 million to \$25 million range. A good portion of them need capital to operate and grow, and have owners with estate and liquidity problems that can be solved with fresh capital.

Whereas the typical publicly traded U.S. company currently sells for about ten times cash flow, equity in a healthy, growing private company with total capitalizations in the \$1 million to \$25 million range are generally priced at three to four times cash flow. Larger private companies can sell for cash flow multiples of five or six times.

In some cases, where retiring founders are looking for an orderly way to liquidate a business, a seller will accept an earnout as a significant portion of the price, reducing the cash payment needed to acquire the business and raising the equity investor's returns.

The best place to find private investments is in your hometown. Look for simple, understandable businesses with proven track records, a group of managers you would go to war with and healthy cash flow. Look for businesses that have branded products, customer loyalty, dominant market

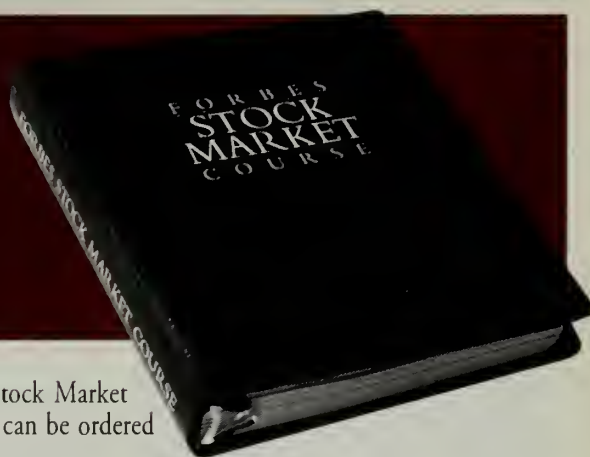
share, tight cost controls or other factors that give them a degree of protection from competitors.

Examine the merchandise carefully. A good rule of thumb is that you will have to look at a hundred companies in order to find one to invest in. But remember the potential reward. Nearly everyone on *FORBES'* annual lists of the 400 wealthiest Americans got there not by buying stocks or bonds but by owning their own, often mundane, businesses.

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The dollar may look cheap, but it is going to get cheaper yet against the mark and the yen.

Pain before gain

BY ANDREW J. KRIEGER



Andrew J. Krieger is managing director of KB Currency Advisors, Inc., a foreign currency investment management and hedging/overlay firm based in Fort Lee, N.J. He is author of *The Money Bazaar*.

IN MY LAST COLUMN (Dec. 4, 1994) I forecast a short-term dollar decline before a more sustained rally. The dollar broke lower, from 1.58 deutsche marks to the dollar at the end of 1994, to the current rate of 1.52. But I am revising my overall forecast. I don't think the sustained rally is near. In fact, we are likely to get a real collapse in the dollar first.

Only after this dramatic dollar washout to new alltime lows against the Japanese yen, Swiss franc and deutsche mark will the U.S. dollar be ready for the rally that so many people have lost so much money anticipating over the past four years.

I am extremely bearish on the dollar for several reasons. One is the global overhang of greenbacks that is the inevitable consequence of a nation living off loans from foreigners.

Another is the steady reallocation of currency reserve portfolios among foreign central banks. They are beginning to substitute marks and yen for dollars. The dollar is now overrepresented, accounting for 65% of overseas currency reserves even though the U.S. economy accounts for only 22% of global production. As central banks adjust their holdings, they will be dumping

dollars and buying yen and marks.

There's another factor weighing on the dollar: U.S. stocks and bonds are becoming less attractive to investors—whether domestic investors or foreign ones. As holders dump dollar assets to buy Japanese, German, French and British assets, the dollar will suffer.

The dollar's troubles are deep-seated. Americans simply spend too much and save too little and borrow abroad to fill the gap. Our savings are far short of what we consume and put into capital investment in factories, bridges, and so on. For a long while we have been able to get away with this imbalance by raising capital abroad—giving foreigners IOUs, Treasury paper and real estate. The foreigners have now accumulated net dollar assets topping \$1 trillion.

Here's something else to think about. Many hedge fund and asset managers are remaining doggedly bullish on the dollar and holding on to pro-dollar positions through both option and spot strategies. But their hands are weakened by 1994's dismal performance. They cannot sustain much further pain in their positions, and these positions would likely be liquidated in even a modest dollar selloff, further fueling the decline.

If you want further proof of the inherent sickness in the dollar, look at the seven rate hikes by the Fed over the past year. In normal times, a 7% one-year Treasury yield with U.S. inflation under 3% would attract massive dollar buying. But all that the Fed has accomplished with its tightening is to propel the dollar down to its lowest level in two years.

Under the circumstances, only a large, sustained downward move will cleanse the market of its excessive dollar holdings and bullishness. What catalyst could set this process in motion? Some unpleasant surprises on

the U.S. inflation front would be likely candidate.

Wall Street seems to think that the U.S. economy is headed for a soft landing—slower growth while inflation remains subdued. I feel, however, that such a development is unlikely. The recent slowing of job growth probably only a pause in a strong employment market. The economy already past full employment. I fear the inflation risk in the economy alarmingly large.

What happens when a pickup in inflation is finally obvious? The Fed speculate, will be at pains to avoid overreacting. It will stay its current course. Then bondholders will worry that the Fed is losing ground in anti-inflation fight. They will dump bonds, taking interest rates much

We might witness an ugly self-reinforcing cycle of asset liquidation.

higher and the dollar much lower, further fueling inflationary pressure.

We might witness an ugly self-reinforcing cycle of liquidated assets fueling the liquidation of still further assets. As foreign holders sold off real estate, Treasury notes and other U.S. securities, they would pile up dollars. These dollars would then be dumped at distress prices into the currency markets.

Even the gravity-defying stock market would turn down and begin a substantial selloff. Eventually, Alan Greenspan would be forced from his gradualist approach and would raise rates sharply—and I mean sharply.

Then and only then would the greenback be poised for a long, powerful rally, the one everyone's been waiting for. But first the pain, and then the gain.

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Buying opportunity in Gemex?

GOT THE GUTS to buy a Mexican stock with the peso crisis still boiling? Take a look at Grupo Embotellador de México (Gemex), the largest independent Pepsi bottler in the world. Since Gemex's Big Board-listed Global Depositary Shares went public a year ago at 31, they've fallen to 7½.

On top of everything else the stock has been hurt by the departure of Gemex's president and the troubles of its 62%-owner, Enrique Molina Sobrino. There's been talk on the Mexican bolsa that banks were putting the squeeze on Molina's private companies, including Mexico's largest sugar processor, whose debts are collateralized in part by his Gemex stake. To satisfy creditors it was rumored Molina might be forced to unload a chunk of his Gemex.

"Nonsense," says Molina, who spoke to Streetwalker by phone from his Mexico City office. Gemex, he notes, has just refinanced some of its short-term debt.

Analyst Raúl Celada of Mexico City's Serfin Securities estimates that Gemex will earn 95 cents per depositary share this year after a 20-cent loss last year, due to foreign exchange losses. At just eight times estimated earnings, Gemex looks cheap in a hot, thirsty country.

—CHRISTOPHER PALMERI

Petrochemicals awake

THERE'S AN explosion in petrochemical profits that many investors haven't caught on to, says Fergus MacLeod, a NatWest Securities analyst based in Edinburgh.

How to play the boom? MacLeod likes three Big Board-listed stocks: British Petroleum (recent price, 78¾), Norsk Hydro (40½) and Spain's Repsol, S.A. (28¾).

MacLeod's per-share estimates for BP in 1995 and 1996 are \$6.25 and \$7.19, respectively, but he thinks his numbers may be too low by a considerable margin.

Adam Sieminski, NatWest's Washington-based analyst covering the major U.S. oils, says the petrochemicals surge also makes more attractive: Exxon (63¾), Mobil (88) and Chevron (47¼). In 1993 petrochemicals

accounted for just 10% of Exxon's operating income. Last year it was 19%; it could be as much as 25% in 1995. This year Sieminski thinks Exxon will earn over \$4 a share, Mobil \$6 and Chevron \$3.15.

Why the optimism? Between 1990 and 1993, petrochemicals suffered from a worldwide economic downturn. In a recovery, however, petro-



Exxon olefins plant in Texas
Surging petrochemical earnings took investors by surprise.

chemical profits typically lag. Which is why, says MacLeod, people were napping when the business produced very strong earnings in last year's fourth quarter. Better yet, he expects bang-up profits in the current quarter.

Doohickeys at 11 times earnings

IF YOU'VE ALWAYS wanted some portfolio exposure to vending machines, keyboards and appliance doors, we've got just the stock for you: Cherry Corp. If those market segments weren't exactly on the top of your mind, you might still consider this offbeat stock. It's cheap, at 11 times trailing earnings.

Cherry Corp. makes snap-action and selector switches. These are the little doohickeys that turn the light on when you open a refrigerator door or allow you to select pretzels from a vending machine. Cherry has branched into electronic gadgets, such as low-cost keyboards and semiconductors, but the low-tech switches remain a mainstay.

The Waukegan, Ill.-based manufacturer did about \$335 million in sales for the fiscal year ended Feb. 28, according to Timothy Reiland of Milwaukee's Cleary Gull Reiland &

McDevitt, Inc. The company earned about \$1.35 on each of its 12.2 million shares outstanding. Trading recent 14⅞, the stock is up 75% from when Reiland first pitched it nearly three years ago (FORBES, July 22, 1992).

The founding Cherry family mentored its voting control last with a 2-for-1 split that created a

class of nonvoting A shares. The company then raised some \$36 million new capital by selling more A shares.

With either class, liquidity remains an issue, since the shares traded on Nasdaq at a hefty 3% bid/ask spread. But for the long-term investor, Cherry remains an intriguing play. Reiland predicts that earnings will hit at \$1.55 in fiscal 1996 on the strength of Cherry's growing presence in motive electronics and the continuing rebound of its keyboard business in Europe.

The Black & Decker drive

BLACK & DECKER Corp. has been the chronic dog on Wall Street. In recent 25, it's trading just a third of where it was a decade ago.

But the construction tool company has recently broken out of its torpor (FORBES, Aug. 15, 1994), and it's just possible the stock is about to do the same.

Last year the company earned \$1.37 a share, versus \$1 in 1993. In 1995 it should do \$1.80, says Michael Alderson, Lufkin & Jenrette analyst. Reasons for the upsurge: market share gains, new power tools, the European recovery and more productivity improvements.

op sells

LAST SUMMER Procter & Gamble was languishing in the mid-50s. Stan analyst Brenda Lee recommended the over- giant to Streetwalker (Sept. 12,). Her reasons: volume growth, margins and savings from a cturing. She predicted the stock d hit 70, up nearly 25%, inside of .

God call. P&G stock has almost a it to 70—in less than six hs. Recent price, 65¾.

ndry has now raised her target on P&G stock. She still expects e company to earn almost \$3.70 a in the fiscal year ending June , and \$4.25 the following fiscal a But given the stock's momen- n she now thinks it will reach 75 the next 12 months.

l Tidewater st rise?

WATER INC. called an issue of The rtible debentures last year when m conversion was still out of the A y. Analyst Thomas Escott of y rta's Robinson-Humphrey took t mean the company thought its stock was cheap (FORBES, Apr. 994). With Tidewater stock at he saw it hitting 33 in a year.

didn't happen. Earnings have lackluster and Tidewater recent- k to an even cheaper 18¾. But it isn't abandoning ship. He s the operator of the largest fleet ssels serving the offshore oil and industry is a better buy than ever.

Ecause of higher oil prices, Escott ts the foreign rig count to rise estly in 1995 after four years in ene. Good news for Tidewater;

of its fleet operates in foreign s. Plus, Tidewater now owns the t U.S. fleet of natural gas and air pressors serving the oilfields after cent \$205 million acquisition of burton's compression business. Tidewater also has a new boss, Wil- O'Malley, who is cutting costs by ing the employee rolls and con- ting operations.

ott estimates Tidewater will 86 cents a share in the fiscal year ng this Mar. 31, and \$1.10 the vng year. Hang on. Escott pre- smoother sailing ahead.

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more things change . . ."

Years ago in FORBES

(FROM THE ISSUE OF MAR. 15, 1925)

The president of a leading group of [?] in Los Angeles tells me he is [?] to urge that California bankers [?] their next convention on board [?] during a trip to Honolulu. . . . [?] officers often complain [?] it is almost if not quite impossible [?] members to attend serious [?] sessions in decent numbers. On ship- [?] members could not, at least, [?] off to play golf, attend theaters [?] visit cabarets."

indications point toward another [?] oil boom, following the drill- [?] of a gusher in the Turner Valley. [?] Imperial Oil Co. is carrying on [?] larger part of the prospecting."

Years ago

(FROM THE ISSUE OF MAR. 15, 1935)



3 Chevy shows how far the industry [?] the boxy cars of the 1920s.

Twenty-five years ago the average [?] automobile cost a little more than [?],000. Today, the average cost is just [?] of \$500. Twenty-five years ago a [?] more than \$1,500 would also [?] a one-family house. Today the [?] is around \$4,500. With the auto- [?] costing one-third of what it [?], the growth of our great motor [?] industry has . . . created millions of [?] jobs at good pay. But with the [?] of housing multiplied by three [?] of divided by three, other [?] of workers vainly walk the [?] in search of occupation."



"After several false starts, the prefab- [?] house this year will become a [?] reality. In Chicago, Steelox Company [?] is preparing to launch its models [?] through Sears, Roebuck catalogs. In [?] Middletown, Ohio, Insulated Steel [?] Construction Company is building its [?] first demonstration home. Near [?] White Plains, N.Y., American Houses [?] is assembling three sample dwellings [?] as the first stage in an aggressive [?] marketing drive."

50 years ago

(FROM THE ISSUE OF MAR. 15, 1945)

"As we enter into an international [?] organization to readjust the postwar [?] world, we must be prepared to make [?] concessions to others. President Roo- [?] sevelt declares frankly that he doesn't [?] relish the planned reallocation of Polish [?] territory. However, he wisely took a [?] realistic attitude. All cooperation [?] entails give-and-take. Russia has contrib- [?] uted so invaluable to defeating Ger- [?] many that Stalin, very naturally, insists [?] upon territorial realignments to insure [?] his country's future safety."

"Economists of the Department of [?] Agriculture are said to be formulating [?] a program of food subsidies for a large [?] part of the nation. Under the plan all [?] families whose income did not permit [?] them to spend \$170 annually on food [?] per person would receive government [?] aid to make up the deficiency."

"It takes little more than a quarter of [?] an hour, from the time a [?] war] cor- [?] respondent files a message at the mobile [?] sending unit of Press Wireless, for it to [?] reach the company's offices in Times [?] Square, New York, whence it is dis- [?] patched with the speed of electronics [?] to his editor's desk in practically any [?] part of the U.S. It's the first time in [?] the ageless history of warfare that [?] civilians get news red-hot from the [?] battlefield. . . ."

"The prefab [?] house has arrived [?] at last," FORBES [?] announced in [?] the 1930s. But [?] it never did.

25 years ago

(FROM THE ISSUE OF MAR. 15, 1970)

"The year 1969 was a record year for [?] the over-the-counter securities mar- [?] ket—but unfortunately on the down [?] side. More than 1,400 o-t-c stocks [?] dropped by 50% or more and only 76 [?] advanced that much. . . . This almost [?] reversed the figures from the specula- [?] tive days of 1968. . . ."



Flag planted not on the moon but 4,000 [?] feet deep in the Pacific.

"That cozy little pub you recall from [?] your visit to Britain is, in a corporate [?] sense, about as little as Sears, Roebuck [?] and as cozy as Madison Square Gar- [?] den. The odds are five to one that it is [?] owned by a huge corporation whose [?] marketing men are carefully studying [?] how best to exploit its charm."

10 years ago

(FROM THE ISSUE OF MAR. 11, 1985)

"Airline deregulation, a seven-year [?] process capped by the December [?] demise of the Civil Aeronautics [?] Board, has meant . . . a golden op- [?] portunity for the travel agent. . . . [?] With deregulation, travel agents [?] have become sellers of information [?] rather than just tickets [and] now [?] account for \$43.7 billion in travel [?] business, compared with \$11 billion [?] only ten years ago."

"The market demonstrated its ability [?] to lunge back from a one- or two-day [?] selling spree in the last few weeks. [?] Toward the end of the recent two- [?] week period, a day's trading on the [?] Dow crossed the 1300 line. This 30- [?] stock average closed this session a [?] whisker short of that level, but still at [?] an alltime high."

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—MALCOLM FORBES

A Text. . .

Be sober, be vigilant,
because your adversary
the devil, as a roaring
lion, walketh about
seeking whom
he may devour.

—I PETER 5:8

Sent in by Don Smith,
Stanton, N.D.
What's your favorite text?
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of Thoughts on the Business
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of texts used.

Money, which represents
the prose of life,
and is hardly spoken of
in parlors without apology,
is, in its effects and laws,
as beautiful as roses.

—RALPH WALDO EMERSON

Birth, and copulation,
and death.
That's all the facts, when
you come to brass tacks.

—T.S. ELIOT

I entered my Seventies
A decade ago.
My span here on earth
Has been quite a good show.
I owe a great deal
To my relative peace,
And I'm terribly grateful
For such a long lease.

—CÉCIL BAXTER

Politics is an excellent career,
unless you get caught.

—ROBERT HALF

Common sense is perhaps the
most equally divided, but
surely the most under-
employed talent in the world.

—CHRISTIANE COLLANGE

The most Mighty hath created
medicines out of the earth,
and a wise man will not
abhor them.

—ECCLESIASTICUS 38:4

Academy: A modern school
where football is taught.

—AMBROSE BIERCE

We are inclined to think
that if we watch a football
game or a baseball game,
we have taken part in it.

—JOHN F. KENNEDY

When small men
cast long shadows
the sun is going down.

—VENITA CRAVENS

Flocking birds not of
a feather
Dissent at length when
thrust together;
Which means that forced
diversity
Creates its own adversity.

—ART BUCK

A disease known is half cured.

—THOMAS FULLER

I've learned that if you
spread the peas out on
your plate, it looks like
you ate more.

—6-YEAR-OLD'S DISCOVERY

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The general order of things
that takes care of fleas
and moles also takes care
of men, if they will have
the same patience that
fleas and moles have,
to leave it to itself.

—MONTAIGNE

I had always imagined
paradise as a kind of library.

—JORGE LUIS BORGES

To keep an organization
young and fit, don't hire
anyone until everybody's
so overworked they'll
be glad to see the new-
comer no matter
where he sits.

—ROBERT TOWNSEND

When it comes down to pure
ornamental cursing, the
native American is gifted
above the sons of men.

—MARK TWAIN

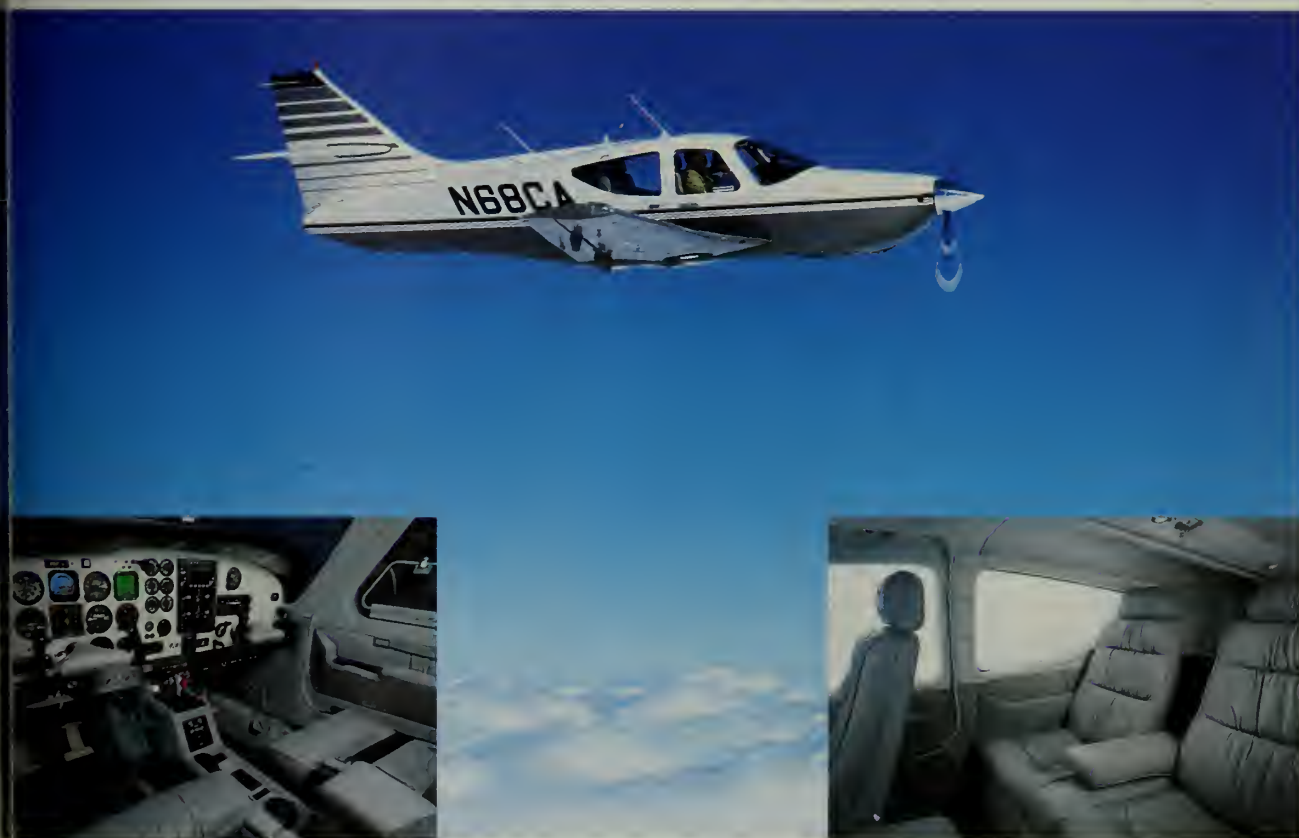


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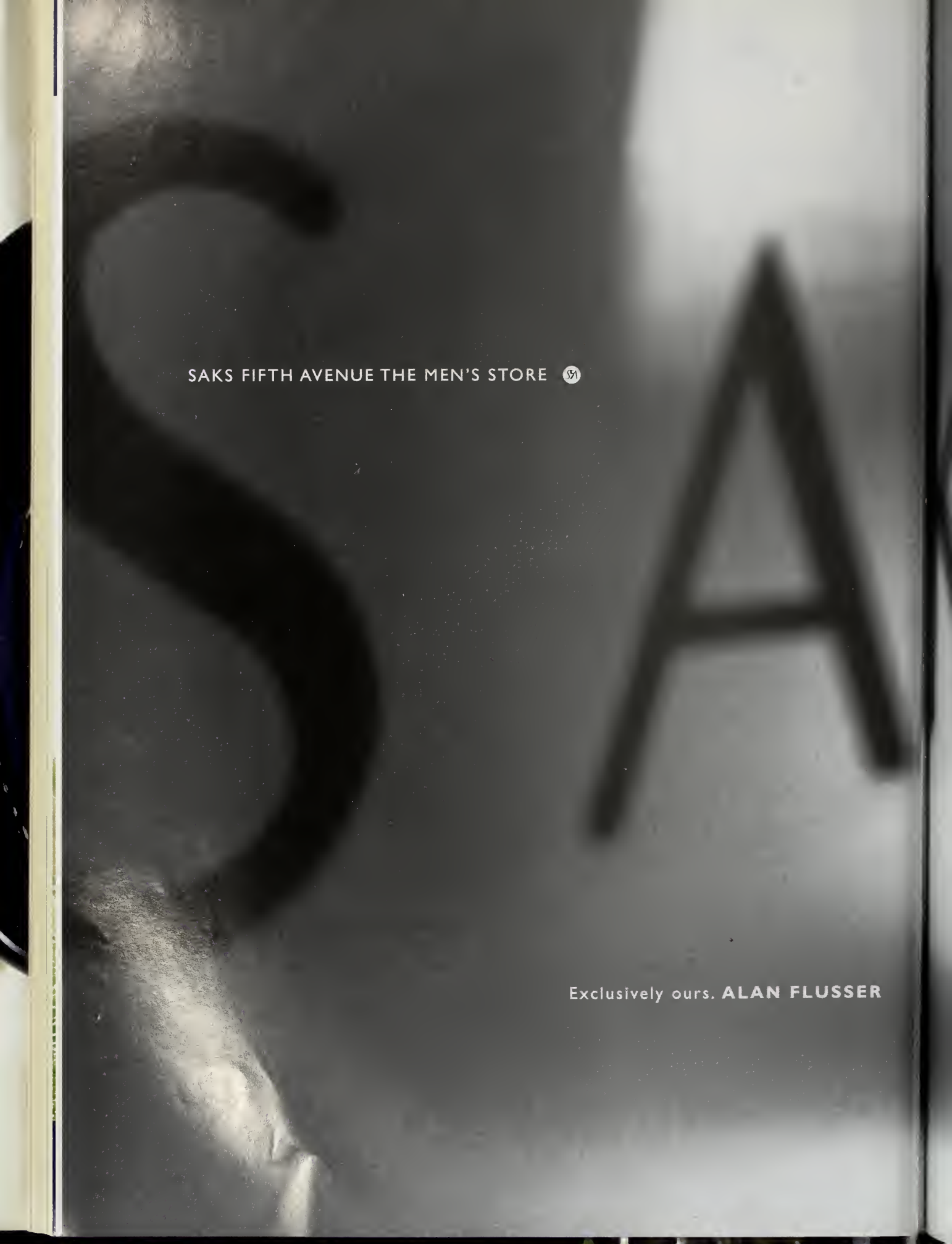
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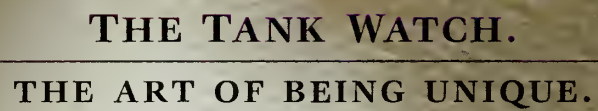


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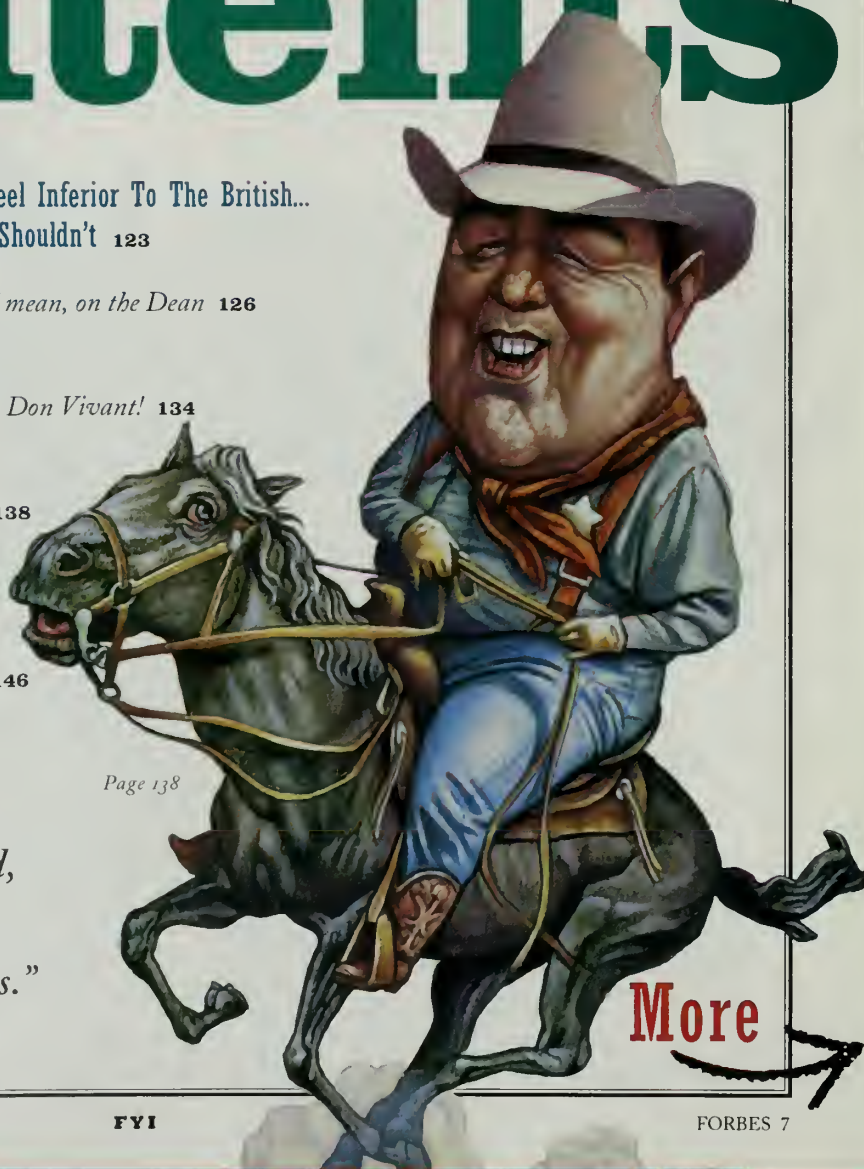
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"Nah, I'm not going to
take a shower" he drawled,
faux-Western. "Real
cowboys never take showers."

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"Condoms and Henry David Thoreau: these I thought offered all the protection a man would need against the knockabouts of life."

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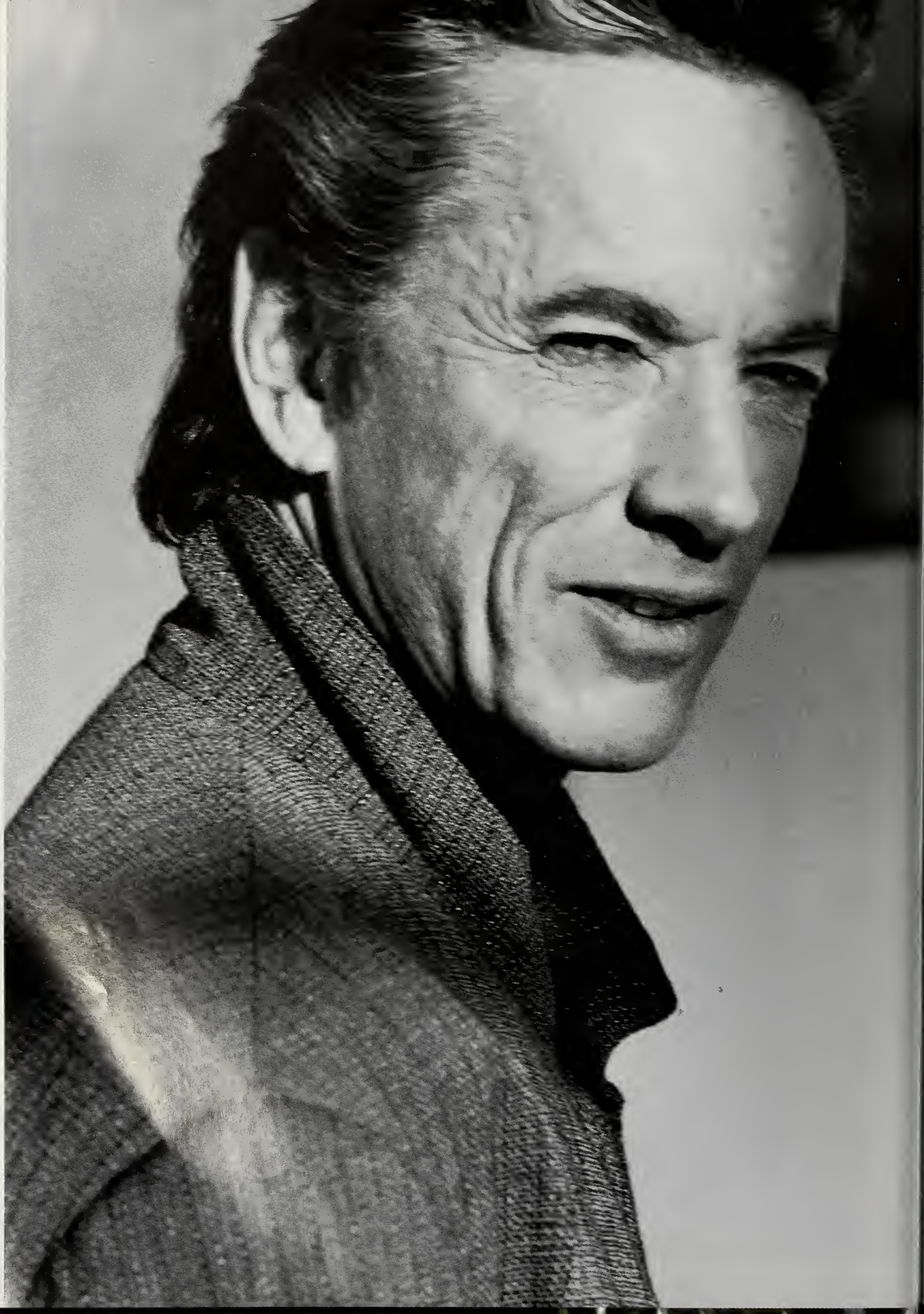
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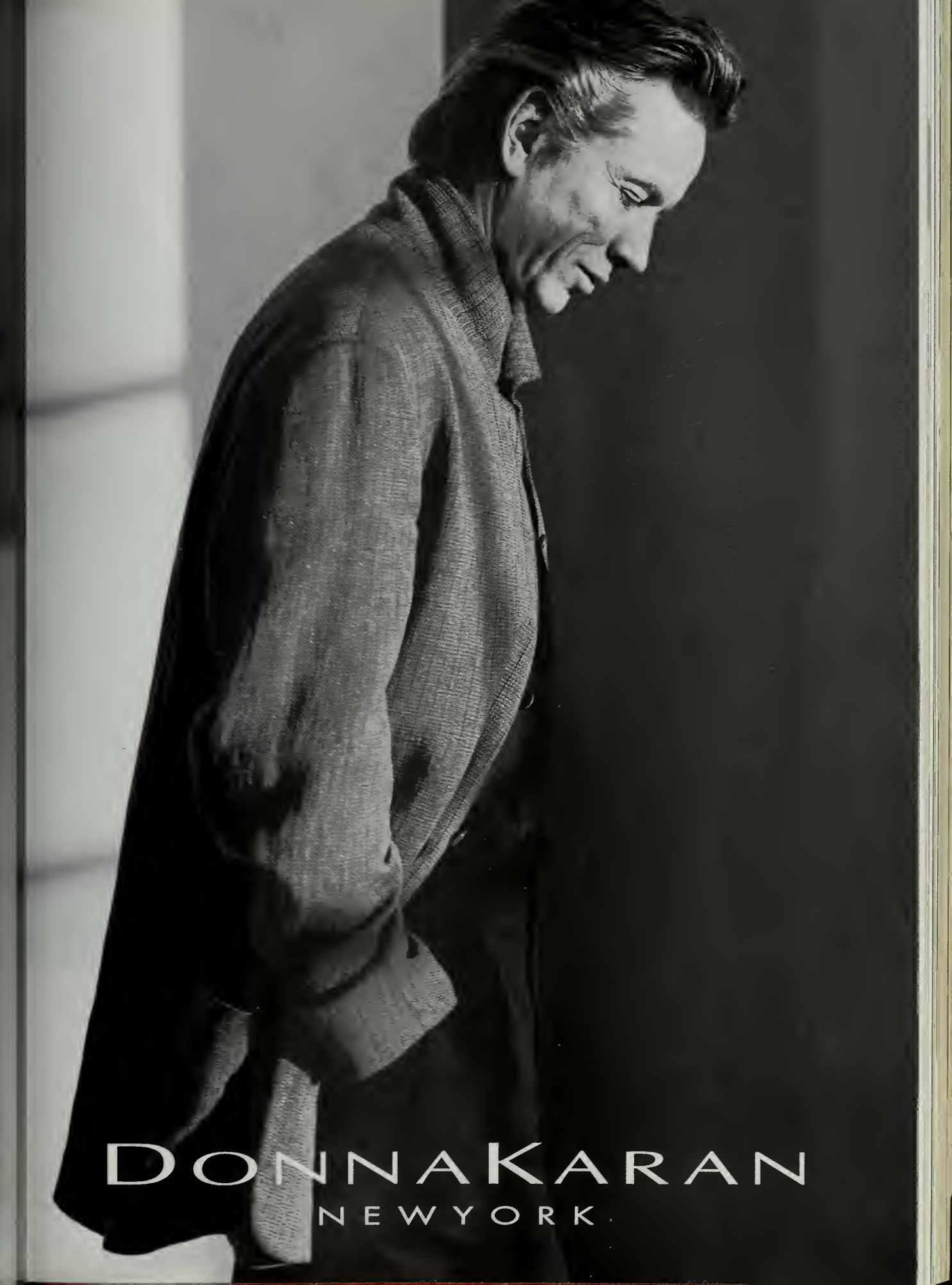
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LY SISTER came home for the holidays this year with news of fresh advances in the war against sperm.

I'm talking about sperm, those little squiggly things inside your testicles—I suppose I ought to say “one’s” testicles, since I can’t be sure who’s reading this. I suppose I ought to say *bijoux de famille*, since it might be my mother, who covers her ears whenever my

sister talks about her work and himpers, “Please! There are things your mother has a right not to know!”

A word of caution: there will be no attempts at euphemism in this story, a mother’s rights notwithstanding. The war against sperm will not be won by the faint of heart.

The fact is my sister is an expert on testicles. She’s a testicle collector. It’s her business. She hunts them down. She’s on testicle detail. She has a beeper and a bucket of ice.

“You’d be surprised how reluctant most men are to give theirs up,” she says.

I’m not, but how do you answer a mark like that?

“No, no,” my sister protests, “even their lives depend on it.” She has always been cool as a cucumber—oh, Lord, there I go....

A plea for understanding: this is hard...that is, difficult...to pull off...to write about, I mean.

My sister’s a scientist, okay? She has a Ph.D. in cellular—or molecular, or testicular—biology. We have assimilated this fact only slowly in my family, ever amazed at Barbara’s stupendous transformation from a pat-check girl at “K-K-K-Katie’s” in Boston in the early ’70s to a dedicated researcher engaged in the fight against overpopulation—the scourge of our time, Barbara says, the single most important problem facing humanity, and the cause to which she has now dedicated her life.

“Can you think of another dilemma more crucial than this?” she asks. Can you name any problem that can’t be traced back eventually to the overcrowding of the planet?”

There are my finances, of course, but I guess my sister has a point: Merrill Lynch can only accommodate so many deadbeats at a time.

Even AIDS, my sister thinks, is just a manifestation of the larger problem, nature’s little balancing act, an effort on the part of the microbes to reduce the global burden in the only way that microbes know: savagely, directly, and without regard to sentiment.

“Microbes are real, you see,” my sister explains. “They’re sentient. We all run around worrying about our



Adam & Eve

‘lives’ and our ‘goals,’ but the cells are where it’s at.” She worked in sweat glands before moving over to testosterone—it had something to do with a potential treatment for cystic fibrosis—peeling the skin off abandoned corpses at a police morgue in South Carolina and looking for signs of...who knows what?

My sister’s mission in life is to reduce the suffering as best she can, to educate, advise and plead with anyone who’s smart enough to listen: “We are in a crisis. Nothing has changed. We are doomed if we do not take action.” The lion’s share of contraceptive research is still focused on preventing conception “in the womb,” Barbara explains. It’s the Pill and IUDs and an ever-changing series of “morning-after” medicines, and it places the onus of population control squarely on the shoulders of women.

What about vasectomies? I ask.

“Reversible,” Barbara snaps, “in a large number of cases. And most men won’t have them until they’ve already had children.” I realize suddenly that I’m up against a contraceptive Carry Nation. She and the

**Able-bodied semen and
the women of science**

.....

BY PETER KURTH

rest of a 20-member staff at a major university outside Washington are looking for new and innovative ways to "stop conception where it starts," as Barbara says—"in the penis." That's what they need the testicles for: research. Hormones. Your ultimate good. They need them "fresh," too, you'll want to know, and whenever a pair comes up for grabs anywhere within a 500-mile radius of Washington, my sister gets busy. She also has some further kind of use for "the urine of post-menopausal women who have never had sex with men," but I can't tell you what. It sounds to me like the quest for the broom of the Witch of the West.

"What do you do?" I ask her. "Stand outside the convent wall and wait for the slops?"

"We'd never find what we're looking for in a convent," my sister replies. "What we need are fewer political lesbians and more actual ones. We need some women who really mean it."

You have to understand that my sister hates the world of science—loathes it, detests it, calling it "murderously territorial and competitive" and a "scourge" in its own right. But she so believes in what she's doing that she's prepared to overlook it. She had better overlook it, she says, since there aren't too many women in her lab—only two—and if the last several centuries are anything to go by, leaving men in charge of health and reproductive services bodes distinctly ill for the future. My sister's attitude to science is coincident with an old remark of Germaine Greer's, namely, that if there were more women in science we might become lousy at going to the moon but "we'd be awfully good at curing cholera and things like that."

"All propaganda to the contrary," Barbara explains, "science is a male institution. It is double-X from top to tail." It's driven by ego more than by altruism, she thinks, and it has no real use for women apart from their experimental and mop-up value. For every Marie Sklodowska (that is,

Curie) who comes down the pike, for every genetics genius like Barbara McClintock or Mary Claire King, there are 30 or 40 maids-of-all-work: chart maintainers, test-tube swishers, gofers, nurses, receptionists, staff. The Nobel could never be won without them, but they have a way of disappearing, of fading into the woodwork, whenever the Scientist—the Doctor, the Great Man himself—proceeds in state to the patient's bed, trailed by his dozens of reverential students, taps his forehead, snaps his fingers and says, "Excellent. See you tomorrow," before rushing off to dinner or to collect his prize. The women of sci-

*The women of science are the
unsung heroes of research
and medicine, though most of
them, unlike my sister,
haven't made testicles their
personal target.*

ence are the unsung heroes of research and medicine, though most of them, unlike my sister, haven't made testicles their personal target.

As children, none of us could have guessed where Barbara might end up, or how. We're a various bunch, completely American and with no professional or dynastic pedigree. Barbara was always an anomaly, "vague," we said, "the gray sheep" of the family, quiet and unassuming and just biding her time until she reached 18 and could leave the house. My mother's only directive to her daughters when it came to their careers was that they never, never learn how to type. Knowing how to type had ruined her life, she said. She's a graduate of Katherine Gibbs

Secretarial School in New York City, one of those war-time gals who waited for their boyfriends beneath the clock at the Biltmore and got married as soon as she'd typed the final "a...s...d...f...j...k...l...semi" on her Gibbs exam.

"Don't do what I did," she pleaded with my sisters. "Learn a task. Become a prostitute. Anything but shorthand!"

So Barbara couldn't type, but she could waitress, and she did, for several years until she married. Her five-year union with a Boston thug (and there's no worse kind) left her convinced, with the help of the Thug's doctors, that she had "narcolepsy" instead of depression. A divorce, a breakdown, and a long, long rest ultimately led to "night courses" at a women's college run by nuns and the sudden discovery—like Helen Keller at the water-well—that she was gifted with a scientific brain, a facility for numbers, codes and formulas and a tolerance for the indecipherable claptrap of "the experts" equaled only by her patience as a child in eating anything my mother served for dinner. We used to say that Barbara had a mouth lined with cellophane. We had no idea that her docility was actually shrewdness, and that her life to the age of 30 was only a

preparation for her retributive leap, scissors in hand, into the world of the duct and the glands. She is adamant when she says that women must no longer carry the burden of contraception by themselves; that men must learn that they are "co-responsible—ha ha!" for the ruin of the planet.

"There are good reasons, as it happens, for a man to surrender his testicles," Barbara says.

Such as?

"Well, treatment for cancer, for one. Prostate cancer. Testicular cancer. But you ought to hear their shrieks and screams! They'd rather die, literally, than lose their... things." She's a bit squeamish still but only in the vernacular.



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"Here are millions of women undergoing mastectomies and hysterectomies and clitoridectomies all over the world every day," Barbara says, "but touch a man's private parts...."

She pauses to collect herself: "It's the same kind of misplaced ego you find in all those yuppie parents looking for 'surrogate mothers' to bear their children—this idea that a child is only worth having and raising if it's yours, if it's got your genetic code, or some of it, anyway. It's this idea in America that infertility is a tragedy rather than a personal disappointment. Believe me, the world is in no great need of my, or your, or anybody's child in particular."

There's a sad story at the back of my sister's words that I hesitate to reveal, realizing that it colors her determination with a bitter hue and might even be used against her should she take her point too far. I wasn't sure if I ought to mention it in a column that strives to be lighthearted, but I asked her if she'd mind and she said no, so long as I didn't talk about the monkeys at the lab (so I won't). After her divorce, during a bitter custody battle involving threats, intimidation, psychiatrists and wads of cash, the Thug walked off with their two children—vanished into thin air, as a matter of fact, never to be seen again. Any of them. That was 15 years ago, and I wouldn't deny that the abduction of her daughters might have its own bearing on my sister's chosen career. We don't ask her about it, or talk about it much. I only want to say that her adjustment to this (very real) tragedy has not been cosmetic. She has "come to terms with it," as the saying is. She's married again, quite happily, and apart from a certain nervous way of smoking—which she only does, I hasten to add, when she is nervous—and the occasional far-off look, you'd never know how bereft her life had been blighted.

So what's new in the war? I ask her over a plate of my mother's Christmas cookies. How can we get

men to take more responsibility for the ultimate destination of those impish cells? According to a recent article in *The Washington Post*, the field of contraceptive research is in "full retreat," strapped for funds, of no concern to affluent women, and facing an increasingly vocal right-wing backlash that equates contraception with abortion and the murder of "babies." It's a philosophy, backward and stupid, that wants women to "protect themselves" by themselves while conspiring to deprive them (the poor ones, anyway, in vast numbers around the world) of the means to do it. Not surprisingly, America's pharmaceutical giants are

*With a beeper and a bucket of ice,
my sister and a staff of 20 are
looking for new and innovative
ways "to stop conception
where it starts—in the penis."*

"wary of [the] negative political climate," according to the *Post*: "Embroidment with the abortion issue is seen as a potential threat to corporate image and sales of other products," and only one company (Ortho Pharmaceuticals, a subsidiary of Johnson & Johnson) has carried on with the fight: in 1960, the *Post* reports, there were 13 companies working on the problem.

"It's better in Europe," my sister sighs, "and in Asia, but not a lot." She hands me a folder of press clippings that seem to have come straight from the imagination of Stanley Kubrick or the Marquis de Sade. A new type of condom has apparently been patented with a hidden microchip that rings a bell if it falls off during coitus (the scientists' preferred word for you-know-what).

Someone in Germany has recently taken this novelty a step further and hopes to market a line of rubbers that play Beethoven and Mozart in perilous situations. Serums, vaccine and a variety of implants are all being tested, including one small device "the size of a peppercorn," that fits inside the scrotum and electrocutes sperm at the moment of ejaculation.

"Critics of the implant warn that interactions with electric blankets, portable telephones or stereos should be examined," says the clip I have, and I don't doubt they're right to worry. In England, Proteus International has been looking at a sperm-killing chemical, already used on animals, that might eventually prove effective as a pill—the "Pill"—for men. "It also shrinks the testicles," insiders reveal, "but arguably it is better to have shrunken testicles than no testicles at all."

Just ask my sister. Last July the director of her project called his staff together—two women I remember, and 18 men—to request that they "tighten the belts." These were his very words. With the students away for the summer, he said, there was "a sperm shortage" at the lab; normally the young men on campus get \$15 or \$20 a pop to produce the goods in a test tube.

My sister's mouth dropped open. "A sperm shortage!" she exclaimed while 18 men stared back at her, and her lone female colleague sat anxiously by her side.

"A sperm shortage?" she said again. "Well, what's the matter with all of you?" She had never seen so many scandalized faces at one table, she told me later, not even when we were kids and she was the only one who would eat the salmon croquette without a fuss. I offer this column as a tribute to her work and in memory of those days, when we all thought she was "passive" but in fact she was thinking of the future. ●

PETER KURTH is a writer living in New York City.

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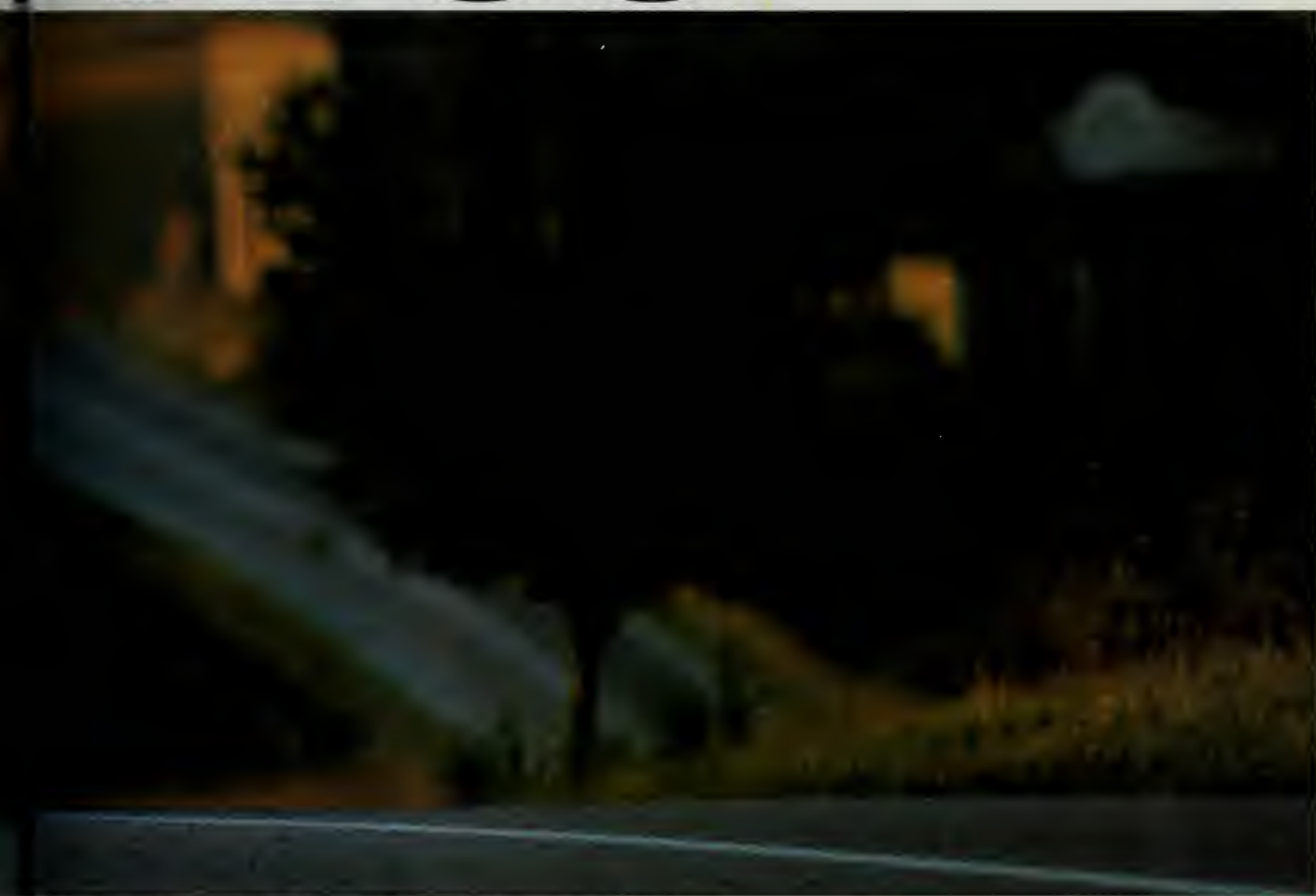


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AS A COLLEGE STUDENT in Southern California, nearly 20 years ago, I would often go barefoot for weeks at a time—so fair was the weather, so free was the spirit. This is why I overreacted when my wallet was stolen the other day. Bear with me.

I know who the thief was but can picture him only vaguely. It was the mid-afternoon doldrums at my gym, and not counting the

“fitness assistants,” he and I were there alone. He grappled ineffectively with the free weights while I wheezed on the Lifecycle. I hadn’t seen him before; as it transpired, he’d been admitted to the gym on a guest pass. I barely noticed when he was gone.

Soon enough I grew tired, and after a few grunting situps went back to the locker room and undressed. I

a great deal of time naked, I’ve noticed, by way of making the rest of us feel inadequate.

When I told Guy what had happened he became all business. “I’ll get my clipboard,” he said decisively, and disappeared.

Hogan drew up beside me to survey the locker. With some annoyance I noted that even in this moment of crisis I tried to suck in my belly. I had spent a great deal of time in Hogan’s presence, during which I had heard him utter only three words. Two of them he repeated for me now.

“F---, man!” he said.

I didn’t know what to say. “I’ll say,” I said.

His pectorals were twitching impressively. “I mean, f---, man!”

We continued this conversation until Guy returned with his clipboard. On it was an official “Incident Report.” He sat on a bench and asked me to list the contents of my wallet.

Men seldom have to do this, though I would commend it to you now. As I began cataloguing, the enormity of what had happened dawned on me. “Cash?” said Guy. I had already made a calculation about 30 bucks, which I could live without. “Credit cards?” Credit cards! Inexplicably I hadn’t considered them, but suddenly I imagined a string of phone calls stretching out for days, haggling with bank bureaucrats, oil company functionaries, doltish accountants from department stores.... “Driver’s license?” That too! Other lines appeared in my mind’s eye, snaking through the DMV, with stacks of forms to be filled out, the smirks of state employees....

It went on for several minutes

Mr. Sisyphus

fished my locker key from the pocket of my shorts. I slid the key in the lock, but the door popped open before I could turn it.

A locker room is like a second home. Here, after all, is where you walk around naked, disheveled and unsightly without embarrassment, where bodily processes can proceed uncensored, with a kind of ungirdled pleasure known nowhere else. In such a setting criminal acts are as unthinkable as gunfire at a poetry reading, or a poem at an NRA meeting. So I felt slightly dizzy when I noticed the cutting marks on the side of the locker door, and more so when I scooped up my trousers and saw that my wallet was missing from the back pocket.

I stood naked—literally and metaphorically. At that moment Guy, one of the gym attendants, walked in with a gym regular I’ll call Hogan, a hunk who might have been chiseled from the same block of marble as Michelangelo’s David, and by the same hands. Hogan began undressing immediately, in front of the mirror, as is his wont. He spends

**In which our writer is
deprived of his
wallet—and his grip
on life**

.....
BY ANDREW FERGUSON

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The longer I thought, the more I remembered: the expense account receipts that would now go unreimbursed, the \$40 subway fare card, an uncashed check for \$400 from a publisher, more credit cards and my ATM card, a list of potential presents for my wife's birthday, family photos, the library card...my Blockbuster video card! Even now the thief could be renting mounds of Stallone videos never to be returned...at a replacement cost of how much—80?—a cassette.

Hundreds of dollars for Sylvester Stallone; my panic melted into depression, damp and bleak. Guy asked me to sign the Incident Report and left to call the cops. Towel in hand I went to the showers. How is it that with the filching of a single object one man could disrupt so comprehensively the life of another? As I lumbered into the shower stall I remembered a scene from *Breaking Away*, the bicycling movie, in which the father consoles his heartbroken son. "Come on," he says (if I remembered correctly), "it can't be that bad. It's not like you lost your wallet."

What could be worse? At the moment I couldn't think of anything worse, and it was then, with the water coursing down, that I remembered my barefoot life. It was the first genuine nostalgia I had felt in years. In those days I not only went without shoes but without a wallet. What little money I had fit folded in my pocket. I didn't own a car, so why carry a driver's license? No bank was stupid enough to give me a credit card; ATMs had yet to be invented. Lacking steady work I collected neither receipts nor checks. The backpack I carried with me everywhere was weighed down only by the schoolbooks of the moment, a handful of prophylactics, and a dog-eared edition of *Walden*, at the time my bible.

Condoms and Henry David Thoreau: these I thought offered all the protection a man would need against the knockabouts of life. In his book, Thoreau famously lists his expenses for a year. Clothes, food,



How is it that with the filching of a single object, one man could disrupt so comprehensively the life of another?

shelter, heating oil come to \$61.99. Standing motionless in the shower, calculating my credit limits on my VISA and retail charge cards, I figured I was exposed to losses a hundred times that amount. Over the years I had come to dismiss Thoreau as a woozy romantic, a fantasy figure for the barefooted, backpack-saddled young. Meanwhile, I had been accruing a web of attachments and obligations whose bonding power was only now apparent. They had formed their nexus in the most unlikely of places, that folded clump of leather in my back pocket. With my wallet gone, I vowed in the shower, my sticky multitude of obligations would vanish too.

It was, of course, a silly vow, this Thoreauvian resolve to simplify my life. It took days to dissipate nevertheless. My wife bought me a new wallet. I refused to carry it. But then replacement credit cards began appearing in the mail; I started collecting receipts again; there were videos to rent, library books to read.

The old attachments returned to me like iron shavings to a magnet. And before long I was back where I started, slightly disoriented, patting my back pocket from one moment to the next, to feel the thickening bulge.

I've enjoyed one consolation, however. My thief, it turned out, had left the gym and walked at once to a department store, where within minutes he charged \$450 to my VISA. He bought a leather coat for \$330 and, I am delighted to report, a wallet for \$120. Doubtless the fellow fancies himself a footloose character, sliding untouched through this clinging world, free of attachments and obligations, a Transcendentalist with a taste for larceny. His little fantasy is at an end. I am confident that sooner or later he will feel the sting of justice, for today he is a man with a wallet, bound to a manacle more stubborn than any made of iron. ●

ANDREW FERGUSON is a senior writer at *Washingtonian Magazine*.



Security

BY JAMES FOX

Keeping the homicidal employee at bay

LET ME TELL YOU a little horror story. A couple of years ago a mid-level manager—let's call him Frank—was hired by a fast-paced Boston computer company. Frank seemed qualified for the job and eager to work the high-stress hours the start-up firm required. After a few months, however, fellow employees began to wonder if Frank might be just one sandwich short of a picnic. First

there were furious outbursts and threats. When a female co-worker turned him down for a date, he started parking outside her house at night. Recently Frank handed his boss a long, angry, rambling memo—re: why I deserve a better parking space. Today, people in the office are scared having Frank around, including his supervisors, and everyone would like to see him disappear. But they're more afraid of firing him. They're afraid of what he might do—the "Problem Child Syndrome" so common in today's corporate world.

Chances are that if Frank were dismissed, he'd simply go on to another company. Then again, chances are he might be back, literally, with a vengeance. While CEOs have their hands full with personnel headaches like family leave and health care, there is one management question that too often goes unaddressed: how safe are employees from deadly workplace violence? Not just from an unstable employee, but from any direction.

Item: in 1993, a man with a grudge against a San Francisco law firm calmly walked into the firm's offices with a sack full of high-powered weapons and opened fire. Eight people were killed in the shooting spree, six others were wounded.

Item: in 1992, in Watkins Glen, New York, a man angered by attempts to collect back child support entered the county offices with a pistol and killed four employees.

Item: last November, a gunman entered police headquarters in Washington, D.C., and opened fire with a semiautomatic rifle, killing three people, including two FBI agents.

All of these killings occurred in offices where personnel felt safe. They weren't. And as an employer, you should be thinking about two basic areas when it comes to office security: how to avoid hiring people who may be potentially violent; and how to restrict access from outsiders.

First, let's look at a profile we put together while I was at the FBI of the guy most likely to enter your building with a grudge and a loaded gun. (I use "guy" deliberately; a vast majority of these killings are carried out by men):

He is male, 35 years or older with a drug or alcohol problem. He is a gun buff, often described as a loner or withdrawn, and while he lives for his job, he's paranoid that people are doing him wrong.

He often files grievances with the company or his union over the most trivial matters, and many killers keep diaries detailing what they believe to be abuse. (Police have also found after office shooting sprees that these men often kept vast newspaper files about other killers who have taken matters into their own hands).

The potential shooter may be experiencing what the FBI calls the "I love you/I hate you syndrome," toward a female co-worker with whom he has a misdirected and unrequited romantic affection. (These killers generally dislike women in positions of authority, and shooting victims are often female.) Or perhaps he's a zealot. The abortion issue, for example, is believed to have set off John Salvi, the man who allegedly killed two abortion clinic workers in Brookline, Massachusetts last December.

He often will have bragged openly about what he intends to do. "Let me in to the computer system and



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put this company out of business," he'll be heard saying. Or, "Give me ten minutes with that guy and I'll straighten the bastard out."

He will act alone, as 90% of these men do, and there is a one-in-four chance he will kill himself after taking as many innocent people with him as he can. Unfortunately, no one knows what will push him over the edge, but he will most likely snap in the wake of a crisis, such as a death in the family, a divorce, a health or financial setback, or being fired.

In an open society there is a limit to what you can find out about a potential employee's stability. But here are some suggestions I think you should consider to head off trouble, or at least contain it:

Background Checks:

Without a central, available, nationwide repository of criminal data, it's impossible to zero in on all of a job candidate's possible prior convictions. If the candidate signs a release you can check records in the state in which he's applying for the job. But California records, say, won't turn up trouble he might have had in West Virginia. The candidate's signed waiver allowing you to conduct a private investigation may still highlight some blips on the screen, however. I know of one company that recently talked to neighbors of a job candidate. He turned out to be a gun nut who terrified everyone. The man also had two disorderly conduct convictions. His job search is currently continuing.

Fitness For Duty Testing: If you're getting reports that an employee is exhibiting strange behavior, you can insist on an exhaustive psychological test given by a number of reputable firms. It may just uncover traces of what behavioral scientists call the Trilogy of Terror, common to serial killers: as children, they were fascinated with matches and fire; they were bedwetters until 10 or 12 years old; they mistreated small animals.

Employee Assistance Programs (EAP): I'd say that almost all large corporations have imple-

mented this program. So have many mid-size and some small employers. EAP arranges for substance abuse treatment and psychological aid, hopefully treating trouble before it leads to a company catastrophe. I think it's a great idea, and in the long run, a sound investment.

Attitude And Climate Surveys: This is a fancy name for listening to employees' gripes, and it's becoming increasingly popular. When an employee comes up for annual review, supervisors ask him what he believes is working and what isn't within the company. He's asked to describe what's good and bad about his job. This gives employees a chance to vent, to feel they've been

*He will act alone, as 90%
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he will kill himself after he's
taken as many innocent people
with him as he can.*

listened to, and are being treated fairly, especially when their suggestions are adopted. It shows that the company values their opinions—and the firm often gets some good feedback in the bargain.

Random Drug Testing: I'm perhaps in the minority on this issue, but I believe it's essential. Yes, it's intrusive. Then again, I've seen it work effectively many times. Workers enter employee assistance programs more quickly and that reduces their danger to others. CEOs who have adopted testing programs rave about the positive results!

But what about the man with the Smith & Wesson .38 who's outside trying to get in? There are some discreet measures you can take without turning your office into Fort Apache.

Let's say your company occupies one floor of a 36-story high rise. Security costs are shaped by building tenants, up to millions of dollars a

year total. Building staff provide perimeter security for areas like the parking garage and the lobby entrances, and you may need to work with them to see that those measures meet your demands. Once someone steps off the elevator on to your floor however, the security responsibilities are yours. Expect to spend up to \$250,000 for your own system.

Electronic Identification Badges: It's my view that authorized personnel should be issued a coded badge that allows them into the building. (Many New York companies have already implemented this measure.) This badge should also clear employees into the actual office area. (Some government offices have installed devices that read thumbprints, and one is experimenting with a scanner that reads individual eyeballs.) As for visitors to your offices, each should be cleared by phone from the lobby and should not simply be allowed to wander upstairs. I don't place much faith in sign-in logs, but these are better than nothing.

Clandestine Cameras: When you sign on as high-rise tenant, the building's security force may tell you up front that there are hidden cameras all over the building including your floor, and that they aren't going to tell where they are. That's okay, you can live with it. (I believe surveillance cameras might have thwarted the World Trade Center bombings). In an emergency you want someone watching. (By the way, if you work weekends you've noticed that only one elevator is usually operational. Smile—that's the one with the hidden camera).

Receptionist's Alarm: This is quite useful and should be linked directly to building security or the local precinct. (The law office massacre in San Francisco, after all, lasted 15 minutes before police arrived).

Package Checks: Granted mailbomb incidents are less frequent than office shooting sprees—mainly because pulling a trigger is simpler than building a bomb. But someone in your mailroom should be trained

o look for suspicious packages. A portable X-ray machine is a good investment—they cost less than 10,000—and it's the best way to spot wires and batteries. Your mailroom personnel should also keep the police canine division's phone number handy. Dogs are still the best detectors for all explosives.

Security Guards: Posting a guard in the reception area is expensive, but worth it, if you're in a high-risk industry. It sends the message that you're serious about protecting your people. (The reception area should be arranged so there are no back ways into the office: everyone assesses the guard). The more difficult question is, should your guard(s) be armed—the "G Question"? Lots of CEOs just don't want guns on the premises. In some cases that's a mistake. They can be armed, discreetly. What's worse is the half-way measure some companies prefer: keeping guns in an office vault for an emergency. By the time you fiddle with a combination lock—under extreme stress—an intruder may already have killed a number of your people.

None of these measures is foolproof, and even with the best security, tragedies occur. Take last year's shooting at the NBC studios in New York, for example. NBC knows that New York City has only three percent of the nation's workforce but sees 12 percent of the country's workplace killings. So when a man with a gun showed up at the studio and attempted to get into the building at Rockefeller Center, security went to work. The intruder killed one NBC employee as he tried to point out the gunman to police, but the system worked, and without it a lot more lives might have been lost.

It's a lesson I hope they remember in Boston at the company where Frank works and imagines conspiracies against him. Frank's building has no security whatsoever. Anyone can walk right in—including Frank, after he's been let go. ●

JAMES FOX is the former director of the New York office of the FBI.

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"And your hair, do you dye it, or was it that colour when you bought it?" His amorous advances deftly skewered, she cast her eyes upon the revellers. And though she did not dislike the man, thwarting him "for his own good" was not a task she found particularly irksome. Not at the gala New Year's Eve Ball. When even the most pointed of barbs is delivered with the height of civility. It's a tradition that remains as legendary as Raffles itself, the grand old dame of the East. The ideal place to stay, to dine, to shop, or simply to sip on a sling.

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THE THUNDERING ROAR of pounding metal went a long way through the balmy morning breeze around Stockton Bay, California. Far enough to wake the local citizenry, many of whom beat the authorities to the wreckage down by the water.

A freight train had derailed from the local waterline track, spilling a few cars into the bay and piling most of the rest on the ground

behind. Rail traffic on the nearby double mainline wasn't affected, but there was still plenty to clean up. The back part of the train had to be unhitched and pulled to a siding. A salvage team went to work on the piles of lumber thrown from a busted car. A wrecking crew hauled out two pieces of heavy machinery to clear the track of scrap. And in the water, a "hasty team" of hazardous materials

ous hobbyists, according to an admittedly conservative 1993 estimate by *Model Railroader* magazine. That's up 20% in a decade. But it wasn't always thus. "There used to be a stigma attached to the hobby," says Russ Larson, former editor and now publisher. "Back in the 1930s the attitude was, 'What are you adults doing playing with these toys?' One of the things that gave the hobby credibility was the historical accuracy of the models, the recreating of history in miniature. That theme may have helped the transition."

It's a theme that still inspires. "Model railroading is engrossing and absorbing, it takes me to another place," says Bob Boelter, 54, a Madison, Wisconsin, ad exec who's been caught up in the hobby since the late 1960s. "It's the aesthetics of this man-made thing that railroads are as well as the ability to recreate them in miniature and actually make them operate. Just fascinating. Other than football, I really haven't found anything else I enjoy going home to."

Not that Mrs. Boelter could blame that bad, either. After all, she let her husband turn their basement into the 1,400-square-foot O-scale layout he's trying to finish in time for the National Model Railroad Association (NMRA) convention to be held in Madison in 1997. Boelter spends about ten hours a week laying track, painting backdrops and patiently constructing scenery that often reaches the ceiling. "We tend to model what we know," he says. "I've cobbled together a story based on some nearby lines that were abandoned and pretended they not only exist but are thriving. Actually," he adds with a laugh, "they're bicycle trails now."

In another basement, dry and

Stressbusters

workers had to put a float boom around the still buoyant oil tank car and try to shut its leaking valves before the bay's fish choked to death.

"The problem was a split rail, at least that's what they suspect," says David Trussell, 53, publisher of the *Greeley (Colo.) Tribune*, who, as the guiding hand behind Stockton's HO-scale rail disaster, really ought to know. "The crew was uninjured—very fortunate," he continues, delivering this and other details in a curious deadpan. "Everything just piled right up behind them."

Yes—model railroaders are still around, puttering along in cluttered basements, clawing their way through dusty hobby shops, researching old lines, planning new layouts, wiring tracks, constructing scenery, tinkering, tinkering, and then tinkering some more. In these days of cyberspace, SIM Cities and everything but my mother's recipe book on interactive disc, it's nice to know there are still a few amateur industrialists out there who don't have to smack a computer keyboard to get their kicks.

Quite a few, in fact: 271,000 seri-

Model citizens: they've been workin' on the railroad

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ingy, a thousand miles away, members of the Queens County Model Railroad Association have been gathering every Friday night since the late 1940s in the same Long Island City, New York, apartment building. Their serpentine, 35-by-75-foot HO-scale layout is a sight—a mess, actually, at least to the uninitiated. “We’re trying to get it done by our P.O. box number—2001,” jokes John McCluskey, 55, a civil engineer and club trustee, pacing long next to a freight train as it rumbles up the Hudson River, past town after town of half-built buildings, lamp-lit streets, teeny plastic pedestrians and rolling plaster hillsides. The train disappears into a sub-bench work labyrinth of track, rolls around, then heads down the river again. Cars are everywhere, on the tracks and off, some shiny, some purposely worn, some scuffed with graffiti—typical New York. Every 20

seconds McCluskey sticks a plug into an outlet on the bench work to keep the voltage flowing, a safety check feature of the sophisticated—and expensive—“command control” system that powers the layout.

The *whrrr* of the engine, the flash of the headlights, the little details on the buildings and hills—it’s easy to appreciate the fascination. The club’s Empire Valley Line is a real railroad, after all, albeit a tiny one. Operating as a serious business, and accidents are frowned upon. A club inspection committee clears each car before allowing it on the tracks, with strict attention paid to NMRA regulations. Says McCluskey, “We’re thinking of instituting mandatory drug testing.”

THE RAILROADING HOBBY IS AS varied and sundry as cars on a Mid-

western freight train. There are the toy train lovers who run Lionels and other “tinplates” around the Christmas tree on clunky three-rail tracks. The collectors who shell out big bucks for detailed replicas and rarities. The “rail fans” who spend weekends chasing the real things. The “armchair railroaders” who’d rather

cars, track and maybe a couple of extras. Add scenery, structures and some snazzy equipment, and even a small layout might add up to \$700.

Whether you end up replicating an actual line or just letting your imagination roll, it’s best to choose a concept and stick with it. Pick a time period and geographical location,



Shades of Gomez Addams—newspaper publisher David Trussell’s derailment disaster.

stay indoors and read about them. The backyard engineers who build them big enough to ride. And for modelers, there are all those scales: tiny Zs (1:220), big Gn3s (1:22.5), Ns, Ss, Os, and the ever-popular HOs (1:87) in between. Each scale has its own car size, track gauge, and—important—minimum turning radius for curves and turnouts.

If you find your dreams running to being your own E.H. Harriman or James Hill—your own rail baron, that is—remember: beginners should start small. “Generally, it takes most modelers about three or four tries to get to their dream layout,” says *Model Railroader’s* Russ Larson. “It’s best to begin with something manageable so you can experience each phase of building without getting bogged down.” A decent HO starter set can be had for under \$100, including

then go after the cars and equipment that fit. If you can’t find what you need, get something close and adapt it. Indeed, for many modelers “kit-bashing” is half the fun.

Whatever track you go down, there’s plenty of product to choose from. The latest HO catalog from Wm. K. Walther Inc., the venerable Milwaukee model railroad distributor, runs 896 pages. Need a Rio Grande Southern drag flanger? A four-pack of block signals? A covered bridge? A watchman’s shanty? A half-dozen plastic bicyclists or a pound of fake rocks? It’s all in there—imports and domestic—a mind-boggling selection.

And the selection is growing all the time. There were 115 new products at last year’s NMRA convention: cars, buildings, foliage, sound systems (including a cattle car that

control systems, and on and on. Manufacturers are all over the scale, from age-old giants like Lionel and Marklin, to kitchen-table hobbyists whose sales provide them with write-offs to finance their passion.

Somewhere in between is James Haggard, 40, a former mortgage banker who chucked the corporate world a dozen years back to build HO-scale structures with his wife out of their home in Aurora, Colorado. "I started a business in my home, and now I live in a factory," he says, a bit wearily, of his unusual career path. Haggard's Builders-In-Scale produces a line of do-it-yourself wooden structures, including fire halls, stations and lighthouses, as well one limited-run kit a year, which, he cheerily reports, usually sells out before it's ready to ship.

Much of the new product action these days is in "command control" systems. Unlike common block control systems, which feed power to only one section of track at a time, command controls use radio, infrared or digital signals to throw power directly to a receiver in the locomotive. This eliminates the need for artificial block boundaries—much more realistic, and beginning to catch on. Later this year, Lionel plans to introduce a command control system created by rock 'n' roll dinosaur Neil Young, who designs special controls to enable his cerebral palsy-afflicted son to enjoy the hobby. Other scale model command control systems run up to \$400. But be wary: there are currently more than two-dozen manufacturers, and a shake-out is expected.

Don't have enough room—or patience—to build a full-scale layout of your own? Try getting started with a "module." That is, a short stretch of curved or straight track mounted on a piece of plywood—complete with scenery, structures, background and equipment—that can be hooked up to other modules at clubs or shows.

David Trussell, a 40-year-old derailment disaster, is just one of Gomez Addams—is just one of

modules in a 30-by-40 foot L-shaped collection he's been building, off and on, since the early 1980s. His fictional Denver, Greeley & Tahoe Railway runs through the Rockies and parts West: lumber yards, wineries, airports—a different scene for every stretch of track. "I'd constructed three complete layouts over the years, watched them run for six months or so, and then gotten bored with them," says Trussell. "The modular concept is great because I don't need a whole lot of space to build them, and I can configure them anyway I like." Every few months Trussell hauls out his modules for public shows at shopping malls and fair grounds. His regular crew includes a college professor, a welder, a lawyer,

*In these days of cyberspace
and SIM Cities, it's nice to know
there are still a few amateur
industrialists out there who don't
have to smack a computer
keyboard to get their kicks.*

and a live steam operator from the Union Pacific.

Still another option for beginners—particularly busy business types who just want to play—is buying a custom-built layout. There are more than a few builders out there, including Lorell Joiner, whose San Antonio-based Great Southern Hobby Cartel has been "booked heavily" since he ran an ad in *Model Railroader* a few years back. "Most of my clients are professionals who have the desire but not the time," says Joiner. "They look at a custom layout the way

they'd look at a Mercedes Gullwing—they might not have restored it, but they'd sure enjoy owning it."

Joiner recently built an HO-scale layout for a Wall Street stock analyst who wanted to relive his boyhood through a line he remembered near Ann Arbor, Michigan. After a bit of research in his railroad library, Joiner came up with an 11-by-17-foot layout of the now mostly abandoned Ann Arbor Railroad, complete with imported brass locomotives, a scratch-built cannery and grain elevators, scenery cast from actual rocks, and computer-controlled electronics. The project took five months. Cost: \$65,000, installed.

The accomplished modeler is part artist, part architect, part electrician and part historian. When frustration sets in, remember that those who excel at everything are few and far between. The NMRA, which has 26,000 members from 42 countries, has long offered a Master Model Railroader Program to recognize outstanding skill in all areas; so far only 270 modelers have qualified.

Rather than settle for a half-baked layout, then, consider joining a club. With a couple dozen modelers, chances are there will be at least one who's into scenery, another who's hot for electronics, a third who tinkers with engines. Operating with a crew will give you the feel of actually running a railroad, and that's really the point, isn't it? ●

ALL ABOARD!

National Model Railroad Association (for information and clubs in your area): 615-892-2846

Kalmbach Memorial Library (great for model railroad research): 615-894-8144

Model Railroader magazine: 800-533-6644

Wm. K. Walther, Inc.: 414-527-0770

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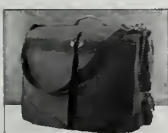
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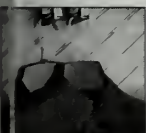
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As I WRITE, this news bulletin arrives by fax: "Kerkorian sells MGM Grand Air.

"The airline of the rich and famous—MGM Grand Air—is being converted into a cargo airline."

Well, there are more rich and famous out there than there were patrons of MGM.

Every morning dozens of passenger jet aircraft leave Los Angeles bound, non-stop, for New York City. Some of these planes were configured to house 12 passengers traveling First Class, others as many as 22. My guess is that hundreds of First-Class seats were taken during those hours. Anyone flying within this period could, with minor modifications,

little while. And when MGM took it over, after a year or so, the company experimented with an economy section on a transformed DC-8, aft of its regular First-Class service. I did not examine it, but the word was that it was the equivalent of traveling First Class on a conventional carrier. Then MGM ended the service, for 21 forlorn months, restricting the use of their sumptuous aircraft to charter parties, presumably for the Rolling Stones, their equerries, and other such folk, to ease their way from city to stupefied city.

At this point the great MGM Grand Hotel sprang up in Las Vegas. I do not know whether it is "great" as advertised, but evidently it is the largest luxury hotel in the world. I am unlikely ever personally to verify this, as I have zero desire to linger in the city it celebrates. But I prayed that MGM's Los Angeles-New York, N.Y.-L.A., (two flights each way, every day) would survive. The reported loss over a recent nine months was \$2.64 million on revenues of \$14.9 million. It was reasonable to assume that however deep the pockets of the operators, they would not persist in offering that service to less than a dozen persons patronizing the flight, as was the case the last two times I flew.

How to abbreviate the experience? I have flown on Air Force One, have disported on the Concord right around the world, on a dozen corporate jets, including a luxuriously appointed G-4 dispatched all the way to Geneva to bring me to Los Angeles. I suppose the Sultan of Brunei has a palace that flies about the world at 600 miles per hour, and I live utterly at peace with the conviction that I will never experience it. I depose that MGM's flights were



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have opted to fly on the 9:15 MGM flight. Some, indeed, were willing to make major modifications in their itinerary in order to fly MGM.

I did, some weeks ago. Seeking to return to New York, I rose at 5 a.m. to make the connections from Las Vegas to Los Angeles-New York. I had to walk a very long mile in order to fly MGM. I flew on it 21 times. What baffles is that on all those occasions, MGM flights were never even one-half full, let alone sold out. And yet MGM pegged its fare at *exactly* the sum you paid to fly on competing carriers, about whose space, food and service let us agree to say nothing. My posthumous purpose is modest, which is to celebrate what is suddenly—a memory.

A brief bit of history. It was conceived 11 years ago as Regent Air. Its amenities were encyclopedic: a driver would pick you up at your office/house/apartment, drive you to JFK; and on arrival in Los Angeles, another driver would take you to your destination. On board there was a barber, in case you wished to trim your hair or beard. These rather ostentatious excesses ended after a

R.I.P. MGM

BY WILLIAM F. BULLLEY JR.



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ive hours of unparalleled comfort.

You arrived at their door in Los Angeles (most recently) 45 minutes before flight time. Your bags were taken at the entrance to the small reception area. You confirmed your seat selection and sat in a comfortable armchair with whichever of the six morning papers or dozen magazines sitting about caught your eye. There was coffee and tea, fruit juice, croissants, bagels, myriad *confitures*, and wine, and Bloody Mary mix; and, alongside, a bank of discreetly arranged telephone cubicles.

If the flight were full, the aircraft transported 4 passengers. You could opt in for the kind of eating arrangement that made the most sense for you on the contemplated trip. There were a half-dozen chairs that converted to sleeperettes, if repose was what you most wanted. Several chairs permitted the attendant to draw out in front of you a table on which you could repose your word processor, 15 manuscripts, and 100 unanswered letters, leaving plenty of space for food and beverages to come.

Of course, you could view a movie if you wanted to, your choice from among eight movies. And there was the conventional other fare on the listening channels.

You wanted a cabin? Suitable for your persons? If no one else put in for it, it was all yours. Again, the seats reclined about as far as you'd wish, this side only of honeymoon posture. The attendants exactly contrived the art of staying away and being ubiquitous. Was it your imagination—or were the engines unusually quiet?

Merely good food can be something of a bore, seldom worth the space to describe it. But no palate is so jaded as to escape wonder at what MGM came up with. I give details

only on the Eastbound Brunch. The “starters” were: “Grand muffins (fresh gourmet muffins),” “medallions of poached salmon (accented with a creamed dill sauce),” and “an array of fresh sliced fruit.”

Comes then the “main course.” “Buckwheat pancakes (with spiced cranberries and pears),” “chicken and artichoke heart salad (a delicious mixture of chicken, artichoke hearts, red pepper, celery, red onion, wild rice and tarragon, laced with red wine vinaigrette).” “MGM Grand



The whole damn thing was first quality... Was it my imagination, or were the engines unusually quiet?

omelette (made to order with your choice of fresh mushrooms, scallions, diced ham),” “eggs to order (poached, sunny-side up or scrambled. Egg dishes are accompanied by cottage fries and chicken sausage.) available upon request, low cholesterol egg white omelettes, selected cereals, fruit or vegetable plate.” And “dessert” brings you “Bûche de Noël, assorted fruits and cheeses. Freshly baked cookies [are served] prior to arrival.” Some “brunch.”

The wines, red and white, were of first quality. The whole damned thing was first quality, and when you landed, you found yourself genuinely grateful to all those people who put it together, compassionate

about those ravaged travelers doing coast-to-coast duty who did not even know what it was they unknowingly passed up, and horrified at the possibility that the service would some day wither away, mortally wounded by desuetude. Which is exactly what happened.

SOME YEARS AGO I NEEDED TO PLAN to be in Washington fairly early in the morning while doing service at a dinner date in New York the night before. The prospect was a seven a.m.

shuttle, until someone asked, Did I not know about the night train to Washington? Answer: no, I did not, though in my youth I used that train service frequently.

I had thought it long since extinct.

Well, it had been reborn, with the marvelous convenience that you could board your Pullman stateroom any time between 9:30 in the evening and 1:30 in the morning. In your cabin when you arrived was an aperitif box, cheese, crackers, cookies and a half-bottle of white wine. On reaching Baltimore the next morn-

ing, just after seven, the porter brought you a trim breakfast and the daily newspaper. I used the night sleeper a dozen times, and every now and again mentioned its availability to friends who almost uniformly were surprised to learn of its existence.

And then, early in November last year, I asked my office to get me a reservation for the following day, only to learn that: the service had been canceled.

I can't believe this happened because there aren't enough people who need to travel from New York to Washington, would be tied up late in the city, and didn't find it appetizing occasionally to travel by sleeper—and, incidentally, pay for their

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accommodations less than the commuter-shuttlers charge for the sardine quarters on their airplane.

Why? What happened?

When my wife and I began the habit of spending February and March in Switzerland, we traveled on steam ships. There were several to choose from, and the delights of an ocean passage beckoned, year after year. But the liners were less and less full, and one day, about ten years ago, there were no more. Some gave up the ghost entirely. Others made their way to the Caribbean, to do the cruise business, stopping every night at an island to be exploited on the following day, with its beaches and under water life. How

many people cross the Atlantic in January and February by air? A million? A billion? In conversation with the traffic director of Pan American (R.I.P.) some years ago I asked why the airline had given up its daylight flights to Europe, so comfortable, so convenient, so (relatively) jet lag-free. There were two reasons, he said. The first is that an aircraft leaving at 10 a.m. and landing in Paris at 10 p.m. local time had, really, nowhere to go until the next morning, there being less than a hundred million Frenchmen set on boarding the flight at 11 p.m. to visit the Middle East or faraway India, or Mysterious Afrique. So the planes would sit for 12 hours, waiting for passengers flying to America. The second reason? Americans, he said, will always seek to maximize the length of their two-week vacation. If they spend the first day traveling, why, *Pffft!*—they have diminished the length of their vacation by five percent. "They don't realize that traveling overnight they'll have jet lag and won't enjoy Day One of their vacation."

How is it that there aren't enough travelers, either the idle, or the retired, or the children with great big eyes that want to wonder at the sea to sustain one liner during January and February, making four round trips? We are spoken of as the largest and most affluent community in the world, but we appear to disdain to patronize, or even to notice, the

*We are the most
affluent community in
the world, but we
disdain to patronize the
January liner, the
overnight Pullman, the
blissful MGM. Is
this our Puritan roots?*

January liner, the overnight Pullman, the blissful MGM. Is it our Puritan roots? But people who sell clothes and jewelry and booze and \$15,000 Mickey Mouse watches don't seem to have been hit by it, the strange insouciance to travel luxury.

FOR ALL THAT WE LIVE IN CYBERSPACE informationland, it

is quite possible that you will live 10 years without discovering that the best pizza in America is at the corner bakery. I love the marketplace, swear eternal fidelity to its dispensations, though none at all to its sense of relative value (the marketplace knows everything about pricing nothing at all about value). What hurts is when the marketplace passes a judgment based on public ignorance, which is what I call it when anybody who was willing to pay First-Class fare, New York-Los Angeles, did anything other than call MGM and, on arrival, feel himself benumbed by the sensation of actually wishing the trip had been a little longer.

We don't have much patience with failed enterprises in America but those of us who had the experience of MGM take thought, some of us, to attend the memorial service and profess our sadness at the passing of so civilized an enterprise. ●

WILLIAM F. BUCKLEY JR. is Editor-at-Large of National Review. His upcoming book is *Brothers No More*.

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FOR THOSE OF US with existential cravings, March is a gift from the void. Lying low, out of range of February's short, punishing jab and April's unbalanced, hormonal attack, it's nowhere: a loner, no winter, not spring: 31 perfectly cheerless days with the circadian clock stuck at 4 a.m.

This year, in fact, the month begins even more promisingly than usual with Ash Wednesday and (unless I am greatly mistaken) a colossal hangover. It is the ideal time—no doubt about that—for luxuriating in the best of the bad: the losers and chumps, the bottle blonds, crazy reds and simmering brunettes, the alienated, betrayed, obsessed and unshaven, all the ineffable, enigmatical impurities that constitute that basest of alloys, the amalgam called *roman noir*.

other extant title, *The Grifters* (movie fame (3 hours, \$16), is again both dreadful and delightful although here the abridgement is littleham-handed, and Tony Goldwyn's reading doesn't achieve the cool, limber cynicism that this great work deserves.

As we scrape the bottom of the barrel of the present millennium, the boom business in culture is to invest what used to be referred to as "trash" with high intellectual merit. So, I am happy to report that Albert Camus' *L'Étranger* was inspired by James M.

Reviews on Tape

A crime wave of audio novels

BY KATHERINE A. POWERS

For their own perverse reasons, Random House Audio Books has been putting its Jim Thompson titles, the greatest on their list, out to pasture. Fortunately, two remain, and my advice is get them while you can. The brilliantly chilling and bleakly comic *The Killer Inside Me* (3 hours, \$16; 800-733-3000) is about Deputy Lou Ford who murders four to six people, depending how you stack them. Lou is a crazy casuist, always unpacking the moral druthers of his circumstances. He's also just plain puzzled by the contrariness of human nature. Why, he wonders ruefully, do people come to him to get killed? "Why couldn't they kill themselves?" This adroitly abridged version is read with consummate creepiness by Will Patton whose genius for getting across the book's gestalt is so great that one begins to feel a little nervous about being alone in the same room with it. Thompson's



Cain's *The Postman Always Rings Twice*. Inexplicably, however, the proto-existentialist pulper is no longer available on tape. Fortunately *Double Indemnity* is. (Caedmon Audio, 3 hours, \$17; 800-242-7737) Told in classic flashback and set in California of the 1930s, it includes murder, greed, betrayal, desperation, a predatory female with a sordid past and her too-clever accomplice—a patsy who thinks he knows the score until he finds out he's playing a mug's game. This abridged version is read by Barry Bostwick with a cheesy cockiness that perfectly suits the sensibilities of the insurance-salesman narrator.

The screenplay for *Double Indemnity* was written by Raymond Chandler who, it is worth noting, greatly improved on the book's ending. I am glad to say that many of Chandler's own works are on tape. Dove Audio has abridged versions of *The Big Sleep*, *Farewell, My Lovely*, *The Little Sister*, *The Long Goodbye*, *The High*



*We chose a small bistro near the hotel
with white tablecloths and a wine list
that stretched from here to Paris.
I ordered a '92 Montrachet, and she
sipped it like a hummingbird on
a dewy gardenia, her crystal glass
sparkling like paparazzi at a
Hollywood premiere.*

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Window, *The Lady In The Lake*, *Red Wind*, and *Trouble Is My Business* (1½-3 hours, \$10.95-\$16.95; 800-328-3683). It may be that abridgement is the only way to keep these

things from outstripping everyman's pocket, but cutting Chandler is a sad, even ruthless business. "I felt like a half-digested meal even at a greasy-spoon joint," from *The Long Goodbye* is just one casualty. There are countless others. Still, we must be grateful for what remains. What's more, Dove does provide unabridged versions of *The Big Sleep* (6 hours, \$29.95) and *Farewell, My Lovely* (7½ hours, \$29.95), arguably the best two novels, as well as *Playboy*, his last, and unfinished work. (8 hours, \$24.95). All these novels are read by Elliott Gould who, I am sorry to say, goes about the job as if it were piece work, uttering the words one after another until they are gone.

The osmotic relationship between high culture and low shows up in Ernest Hemingway. The Listening Library has an excellent collection of his short stories, three of which are exactly what we want. (*Stories of Ernest Hemingway*, 5½ hours, \$11.98; 800-243-4504.) "The Killers" is a deadly story of fatalism and doom. "The Undeclared" is moral quicksand set in the boxing ring, and "The Short Happy Life of Francis Macomber" is about a rich man on safari who shows a yellow streak before native gun-bearers, a professional big-game hunter and, worst of all, his beautiful, heartless wife. Alexander Scourby reads all this in a fine, resonant, old-fashioned voice.

But what have the living to offer us? All the writers above are dead. It is fitting though it may be—a

requirement for noir? Luckily, no.

In the first place, there is Mickey Spillane who has been around forever and still is as of this writing. Admittedly, his ace sleuth, Mike Hammer, is not exactly enigmatic. He's a meat-and-potatoes, heat-packing boy-o who pounds on hoods and the occasional dame, chain-smokes Luckies, drives cars with throaty growls and is in a state of perpetual ogle. Still, you have to admire the scenery, as Hammer might say, the women who spell trouble to a man: "She was a blond snare with a body full of playful curves that held out triple challenges, a body filled with dares to be taken up."

Watch out, buster. This particular hot tomato shows up dead in *Kiss Me Deadly*, an abridged version read with unrelenting toughness by Stacy Keach. (Simon & Schuster Audio, 3 hours, \$14.95; 800-223-2336.)

James Ellroy's novels on the L.A.

Police Department confirm the view that the needle has

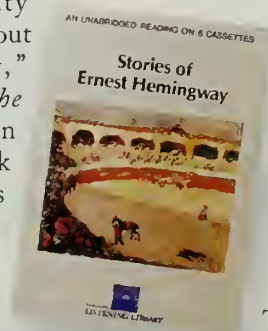
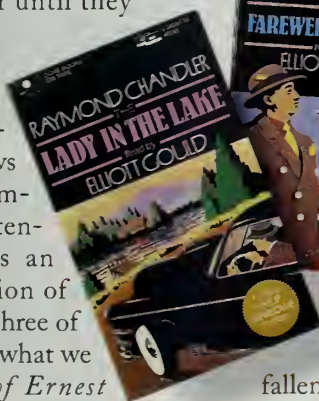
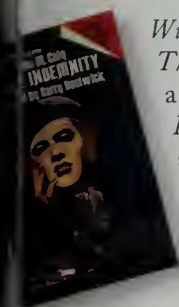
fallen off the moral compass, that "honor," "duty" and "integrity" mean about as much as "yummy," "creamy" and "zesty." *The L.A. Quartet*, as it has been called, is written in stark grays and black. Set in Los Angeles from 1947 to 1958, these four novels take in the entire scope of that city's dirty deeds. Politicians, police and punks are fleshed out in all their unloveliness. Underpinning the novels is one essential message: the good cop is a bad man. Bad because he is ruthless, not suc-

cumbing to the sentimental luxuries of fair play and mercy. To put it another way, nice guys finish dead. How men bounce their cophood off their manhood is Ellroy's major theme, out of which he extracts every nuance. He is a genius in these novels, and Books On Tape (800-626-3333) has them all unabridged.

The first, *The Black Dahlia* (16½ hours, purchase: \$88; rental: \$19.50) is read by Wolfram Kandinsky who takes the ancient-craftsman approach to his task. He's slow. You do eventually get used to the pace and, who knows?, it may lower your blood pressure. *The Big Nowhere* (18 hours, purchase: \$96; rental: \$19.50) is read by Bill Whitaker, and I must confess I have not lis-

tened to it because the title made me scared. Jay Robertson sounds a trifle mystified reading *L.A. Confidential* (15 hours, purchase: \$80; rental: \$18.50). He seems too nice a guy for this kind of dirty work: an O.K. Joe whom I got to like nonetheless. Alexander Adam's reading of *White Jazz* (12 hours, purchase: \$64; rental: \$18.50) is powerful and clear—although a pesky Armenian gives him a spot of trouble on the accent front and ends up sounding like a stage Jew.

Ladystinger by Craig Smith is a dandy novel set in New Orleans and Jamaica about a couple of real stinkers. (Recorded Books, 8½ hours, purchase: \$44; rental: \$13.50; 800-638-1304.) Maggie Rohrer has been making her living by rolling conventioners. Things take a fatal turn when Jack Shanks, a guy she spots as a mark, turns the tables and blackmails her into serving his nefarious ends. Terrible, gripping events ensue, all narrated with terrif-





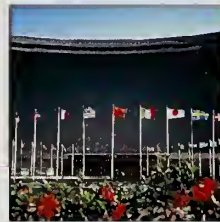
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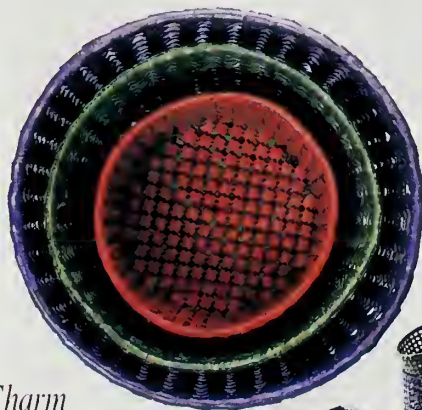
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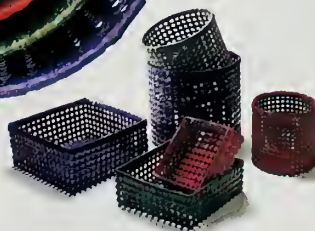
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KRA
MAL

ic energy and versatility by Georg Guidall. The unsavory pair take turns double-crossing each other. I found myself frozen rigid as the storm came pounding down the home stretch, staring into the tape player's little window, my mouth a rictus of horror.

Also excellently read by Georg Guidall is Thomas H. Cook's *Night Secrets*, which has Frank Clemons, standard-issue, dead-inside private dick at its center. (Recorded Book 9½ hours, purchase: \$54; rental: \$16.50.) He sleeps on a couch in his New York office and eats at a rattier deli. He becomes obsessed with the murder of an old gypsy when another gypsy, this one mysterious and beautiful, is accused of the crime. There is some good sleaze here, and the plot is pretty snappy. Still, I'm afraid the book doesn't quite make the grade as noir not only because of certain insidious optimism creeps in but also, *horreurs*, Frank's got Tonto: Farouk, who delivers gnomish utterances on the lines of, "As we say in Arabic, 'Buying and selling are the wind and the rain.'"

Ian McEwan's *The Innocent* is a ghastly, amusing and something of a noir dark horse. Set in 1955 Berlin, it is loosely based on the joint CIA/MI6 project to build a tunnel from West to East as a means of tapping Soviet intelligence communications. Twenty-five-year-old Leonard Marnham, a British technician, is put on the job and quickly gets involved with Maria, a 30-year-old German woman with a past. Frigorous circumstances hand the couple the unpleasant job of disposing of a murdered corpse. Joined in gruesome necessity, all Leonard's wet-behind-the-ears weakness and Maria's deprivation-forged strength poison the relationship, transforming it into classic noir. Recorded Book unabridged version is read with admirable Cold War weariness by John Franklyn-Robbins. (10 hours. Purchase: \$54; Rental: \$16.50.) ●

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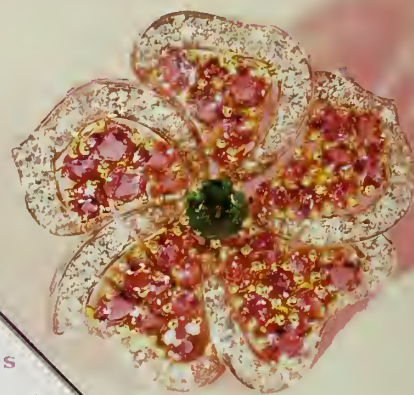
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—MARK GRISCHKE

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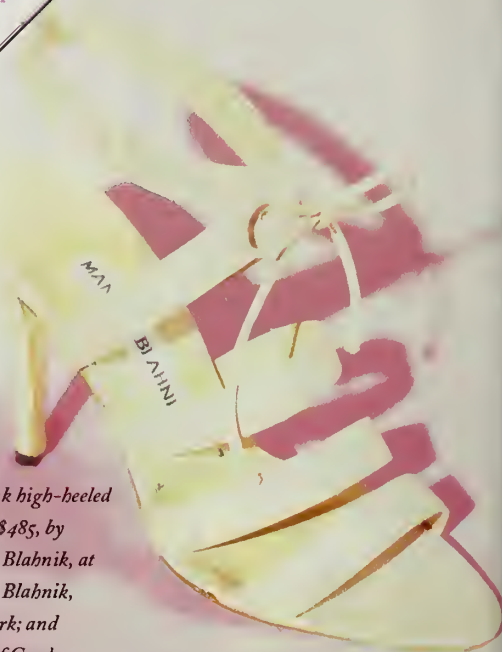
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ROSES. PARIS. A glorious June day at Bagatelle in the sprawling Bois de Boulogne. What could be better? Well, nothing actually. For 87 years this romantic two-acre rose garden has been the setting for the Concours International De Roses Nouvelles. Better known to American rosarians as the Paris Rose Trials, it is best described as Europe's Kentucky Derby for new roses.

The Rose Trials are sponsored by the Mayor of Paris on the third Thursday of each June. For the breeders and their thoroughbreds there is more on the line than bragging rights and Gallic pride: the mass marketing of roses generates masses of francs and, with the rapidly expanding American market, dollars. "If a Meilland rose wins at Bagatelle, you will undoubtedly see

years of its 17-year patent. In the rough-and-tumble market, the genteel search for Dorothy Parker's "One Perfect Rose" to complete one's garden has been supplanted by the search for 100 matching shrub roses to decorate one's yard.

Like everything else, roses are subject to the whims of fashion. About 15 years ago a strain of clear orange-colored roses was developed that gave modern roses a bad name. Why? Well, as the French might say they were far more *laide* than *joli*; they were just plain ugly. Like a bumper crop of grapes in a rotten wine year, what seemed like a good idea at the time turned out to be a massive surplus that nobody now wants. *Le tout* Paris, which, like culture, became *le tout* everywhere else, got hot instead for old English roses.

Many of today's chic "old" roses were once "new" roses, such as New

Mother Earth

it in our catalogue," says Jacques Ferrière of the prominent North American distributor, Conard-Pyle.

Let's get the Gertrude Stein jokes out of the way early: not every shrub rose is a shrub rose is a shrub rose. "To win the gold medal at Bagatelle is a very prestigious honor which ensures a long life for the rose," says five-time American juror Stephen Scanniello, Curator of America's most prestigious bed of roses, the Cranford Rose Garden at the Brooklyn Botanic Garden. "Whenever I am looking for roses and find one that won at Bagatelle, I always try to get it for the collection."

New roses begin with cross-pollination. For a rose breeder, about 10,000 crosses will yield 100,000 to 200,000 seeds, which ten to twelve years later will produce three to five varieties. To be profitable, a rose must prove itself within the first few

Dawn, a popular American pillar climber introduced in 1930 which thrives across town at the Roseraie de L'Hay, Bagatelle's counterpart garden for old roses. English breeder David Austin called it on a dime in the late 1960s when he began breeding classic strains in the public



The War Of The Roses

.....

BY PETER C. JONES

omain with modern roses for wider color and repeat blooms. He began releasing his creations in the early '80s while others were still trying to find romance in oddities such as *Rosa A Clockwork Orange*."

Today low-maintenance, disease-resistant plants that bloom their heads off all summer are the *dernier cri*. To come to grips with a market that must deal with varying soil and climactic conditions as well as aesthetics—with Texas, that is, as well as the Tuileries—international participation is emphasized at the Bagatelle Trials. It was no accident that I was there: a rank amateur when it comes to gardening, I'm a professional when it comes to taking care of Charlotte M. Frieze—landscape architect with Robert A. M. Stern, author of *Social Gardens*, Bagatelle juror, and, not incidentally, my wife.

Bagatelle on the morning of the Rose Trials was every gardener's dream come true. Approaching the rose garden through a long, dark, verdant tunnel, the jurors were startled by a vision of the Orangerie exploding in the sunlight. Set before the Orangerie were banquet tables covered in linen and crystal. In the distance lay the rose garden at peak bloom, a Monet-esque fantasy, with impress Eugénie's hillside Chinese pavilion still slightly shrouded by the morning mist.

Naturally, everyone was dressed for the occasion. Hats—spacious and flamboyant—were everywhere. Freshly creased swells rolled among the tables. Fine silks fluttered like medieval pennants in the gentle breeze. Nervous breeders, here to observe, wore suits so new that the jacket pockets were still patched shut.

President Jacqueline Nebout led the 71 jurors into the Orangerie for instruction on the business of judging roses. As serious as cardinals at a papal election, they gathered along a factory table decked out in spiral-

ing garlands of boxwood. Eric Defretin, the Director of the Bois De Boulogne, stood before an enormous blackboard on which the scorecard was blown up and described the mechanics of judging. The Mayor's office provided a simultaneous translator for Charlotte even though she speaks French. No one wanted any mistakes.

MME. NEBOUT EXPLAINED THAT each year over 100 roses, including shrubs,



At the Paris Rose Trials, bend and sniff (but no scratching!) became the order of the day as the judges literally beat around the bushes.

ground covers, climbers, hybrid teas, floribundas and miniatures, are submitted by growers to compete. Each bush is planted at Bagatelle for two years and then moved to the center of the garden for judging. The Rose Trials are actually the culmination of a year of judging by the garden staff, the Permanent Commission and, today, by the international jury. After the judging, all the roses—even the losers—remain in center court until November.

The Bagatelle garden staff first counts the number of flowers (one

bush had 2,600), the number of weeks of blossoming (several bloomed for 20 weeks or more), and the number of late-season flowers. The Permanent Commission judges for strength and regularity, resistance to disease, the beauty of the flower and the blossom cluster, scent, perpetual flowering ability and overall "floriferous" (yes, it is a word) qualities. A separate commission judges the roses for characteristics that are new and unique. Then with the benefit of the already compiled marks—the technical marks, as it were, if memories of Nancy and Tanya and Oksana are still in your mind—the jurors judge for aesthetics and fragrance.

While heroic music played, Mme. Nebout led the jury back into the sunlight and set them to work. Bend and sniff (but no scratching!) became the order of the day as the judges literally beat around the bushes. If a bush wasn't in bloom, its breeder was plain out of luck. For the next hour-and-a-half every plant was intensely examined, as the jurors balanced their knowledge and experience with classic roses against the realities of the marketplace.

I in turn was free to contemplate a setting as heroic as the music. The splendid Bagatelle was built on a bet just before the French Revolution. Marie Antoinette's brother-in-law, the Comte d'Artois, was a mere lad of 19 when he bought a broken-

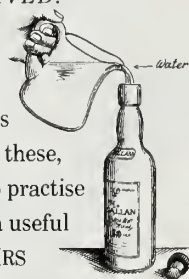
down hunting lodge, rumored to be a trysting site, in 1777. The Queen gave what is now called Bagatelle one glance and made him a "Heads I win, tails you lose" proposition, wagering the staggering sum of 100,000 livres that he couldn't erect a new house in 60 days.

That was apparently the kind of challenge that profligate French aristos liked. Nine hundred men proceeded to work around the clock under the direction of Francois Josef Belanger, the last of the big-league *ancien régime* architects, and deliv-

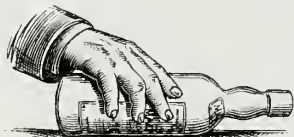
ECONOMY TIPPLES.

FURTHER
CONSIDERATIONS LATELY
RECEIVED.

Tip 1. At times such as these, it behoves us all to practise frugality. Here is a useful tip sent to us by MRS DOORBARR of Newcastle under Lyme.



'When I give my husband his Macallan Malt Whisky, he likes to drink it neat, savouring its mellow sherry-oak tones and flavours. But when I announce that the bottle is empty, he asks "Have you thrown it out?" "Yes," I answer. "It's too good to waste," says he. "Get it out of the bin and swill in a little water. There's a dram to be squeezed from it yet."



Tip 2. When seemingly empty, lie The Macallan bottle on its side. A surprising amount can gather here. Tilt gently forward and ease the residue into your glass.

Tip 3. Rest exhausted bottles, with corks on, upside down, in old flowerpots or similar containers. Every 6 months or so, moisten tongue with cork to recall golden days.



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ered the storybook château on time at the ultimate cost of 2,000,000 livres. Marie Antoinette saw the completion of the garden in 1786, seven years before she herself was deadheaded in 1793.

Bagatelle suffered little damage during the Revolution and fell into the hands of immensely rich English Francophiles. The last of these, Richard Wallace, left it to his widow, who left it to her immensely fat male secretary, who was in love with Lady Sackville, who sired Vita Sackville-West, who recalled hanging garlands on the stone nymphs in the grottos. The gelatinous secretary ultimately sold Bagatelle to the city of Paris in 1905, and construction was then begun on the present rose garden. From the outset Bagatelle was devoted to the cultivation of modern roses, and the Rose Trials began in 1907.

Not even world wars have interrupted them and the solemn work of their judges. Suspense was mounting as the judges, exhausted from the morning's sniffing, returned to the Orangerie. Would it be the seductive Colette Thurillet, a hybrid pink tea as deep-throated as its literary namesake? Would it be the perky Mic Mac, a pink-and-yellow shrub rose as two-toned as a Fifties sedan? Would a dark horse, the elusive Poustinia, a classy, pale pink floribunda with power to spare, ride to victory?

A stage surrounded by topiary columns and festooned with roses had been installed during lunch for the award ceremony. Eric Defretin held each rose aloft like a torch as the breeders stepped up to the stage to claim their prizes. Reflecting market trends that emphasize practicality over pure aesthetics, a commoner took the throne. The gold medal was

awarded to Golden Nugget, a versatile yellow shrub rose hybridized by Interplant, the Netherlands rose-producing giant. (A rather modest-looking champion if you ask me, but who am I to say?) Second prize was awarded to a pink groundcover bred by Germany's Hans-Jurgen Evers called Satina. (Can Satina sheets be far behind?) And after all that careful sniffing, to the audible disappointment of the judges, no award was given for fragrance.



Ay, there's the (sh)rub: "In the distance lay the rose garden at peak bloom, a Monet-esque fantasy..."

Apparently, just because the competition is officially over, people don't stop being judges. I would have thought that the sight of a splendid buffet and the prospect of unlimited Champagne would have taken my wife's mind off the flowers. It certainly did mine. But no. Glasses in hand, Charlotte Frieze and Stephen Scaniello strolled back to center court to inspect the winners in the golden afternoon light. Their conversation ranged from wondering how the roses would fare in America, to worrying about mildew in damper climates, to complaining about the lack of fragrance, to remarking on the incredible proliferation of blossoms. Not even Gertrude Stein, I think, could have diverted them. ●

PETER C. JONES, a writer and president of High Tide Press, lives in New York.

KNOW YOUR ROSES!

Hybrid Teas—three to five feet; the Rolls Royce of roses, lots of class but a bit staid; flowers are large, beautifully proportioned and often fragrant.

Grandiflora—five to eight feet; a Caddy limo that can closely resemble a hybrid tea; flowers are long-stemmed, singly or in clusters; like your limo, they add a certain *je ne sais quoi* to the driveway.

Floribundas—three to five feet; a BMW known for its neat, compact habits; these roses are born in clusters of several-to-many flowers; built low to the ground they corner well in low borders.

Climbing Roses—10 to 30 feet; a Porsche for social-climbing gardeners, who will be amazed to discover that, like their motorcar, these vigorous roses are more than a mere status symbol.

Ramblers—10 to 40 feet with a spread of up to 50; no longer manufactured in Detroit because it is usually a no-repeat bloomer, this classic arching rose rambles in large trees (such as apple) or covers unsightly buildings (such as your neighbor's house).

Miniature Roses—six to 18 inches; unlike miniature golf where you get the green but not the fairway, this perky Honda Civic is in all respects (foliage, buds, flowers) a pint-size version of larger roses, perfect for the garden.

Shrub Roses—two to nine feet; a Ford Bronco; known as roses for the masses, these are sometimes called "Clinton Roses" because they can grow as wide as they are tall and are useful when hedging.

Ground Covers—10 to 18 inches; a Mustang known for dense, low growth that is designed to prevent yupsters who like to hit the ground running from doing so in bare feet.



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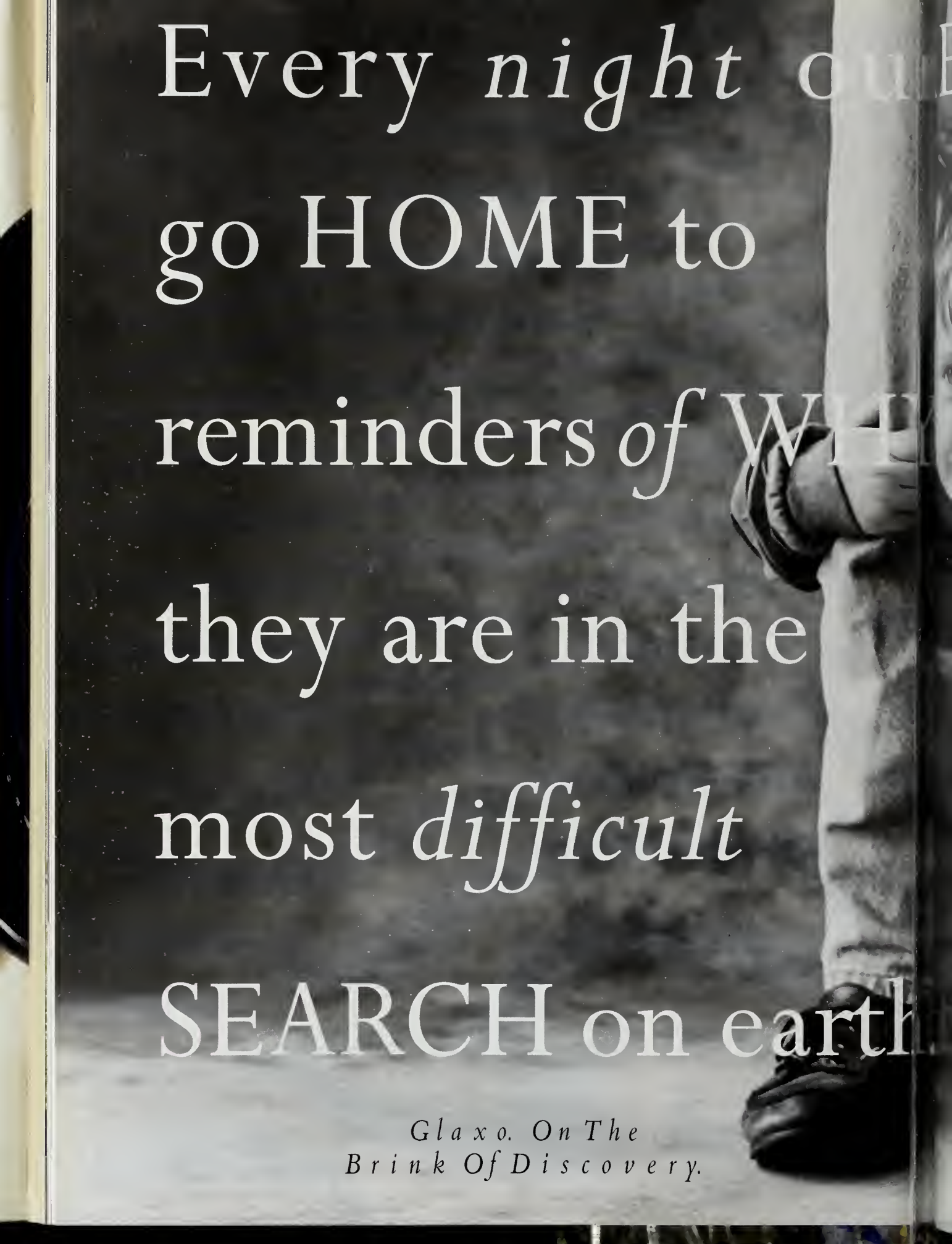


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the golfer. For Leadbetter, golf instruction is more art than science. "When I first see someone," he says, "I have a vision of how I like to see that person play. Everything I works toward that."

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I SAT IN THE SUNNY clubhouse at the famed Stadium Course at PGA West one morning last fall, and listened while one of the young executives of KSL Recreation Corp. explained to me how his company had acquired the assets of PGA West, that expansive resort real estate community in La Quinta, California, once the centerpiece of the far-flung Landmark Land empire.

Landmark, of course, had fallen afoul of the savings and loan crisis, and most of its assets—in the form of six golf-oriented properties—were eventually auctioned off at the end of 1993 by the Resolution Trust Corp. KSL did some fancy footwork at that auction, bidding on some of the other Landmark properties, even though it only coveted PGA West and La Quinta.

In the end, KSL paid \$140 million for PGA West and \$136.4 million for the La Quinta Resort. KSL also ended up with South Carolina's Kiawah Island resort, which it deftly handed off, for \$45.1 million, to the AMF Companies, which had been one of its bidding partners.

As someone who had always had trouble with plane geometry, my head began to spin after a while at all this talk of bidding strategies and flying dollars, and I found myself asking, silently, but what does this have to do with golf?

As it turns out, quite a bit.

That golf has become big business will be a revelation to no one. The annual sales of clubs, balls, shoes and shirts runs to billions, and has given birth to some of Wall Street's shootingest stars in recent years.

But companies like KSL are beginning to take a look at the business of golf courses themselves, with a new appreciation for the profits and cash flow that such facilities represent. The days of a typical private country club, owned by the membership and operated by an elected committee of officers for the general fun and fellowship of all, are, if not passé quite yet, certainly doomed.

The question which remains to be answered is, is this good or bad for golf? Will there be a net gain or loss as we transform our golf courses into

corporate entities? Will country clubs become profit centers at the cost of losing their value as respites from the rest of the world?

While KSL is just one of several players in this new industry, it should be of no surprise that the company is enamored of sophisticated financial instruments. The "K" in KSL is the wily and well-known Wall Street investment brokerage firm of Kohlberg Kravis Roberts. The other partners are Mike Shannon and Larry Lichliter, both of whom helped build Vail Associates, the juggernaut of the ski business.

What is most significant in KSL's entry in the golf course ownership business (the company has also acquired the venerable Doral Golf Resort & Spa in Miami and has an

The Golf Bag

80% ownership position in The Fairways Group, a Virginia-based operator of private and daily-fee courses on the Eastern seaboard), is that it viewed the seven golf courses in the Palm Springs desert as the main part of the deal. They were more important than the allure of owning the fabulous La Quinta Resort, getaway for movie stars, or the millions of dollars of potential real estate sales on the dusty, scorpion-infested lots alongside the fairways. To companies like KSL, a golf course is itself a money-making asset, not just an amenity to be used to attract buyers.

"Golf used to be viewed as landscaping," Mike Shannon says. "It was one of the amenities around which people built homes. Today, the emphasis is on guest service more



**Golf Inc.:
the war for
golf's soul**

.....

BY JAMES Y. BARTLETT

There are no natural

No man's
with the innate ability to drive the golf ball
Or hit a

What golfers are born with

Desire

De

Desire

Desire to have someone watch

"Look, now there's a natural

u
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n golfers.

ered the world
a par-four.

a
280 yards.

will
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sink.

sweat.

De
learn.

today and say,

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orn golfer."

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than condo development. We're in the memory business: if the golfer enjoys himself here, hopefully he'll want to own that experience forever. For decades, real estate developers just didn't understand the experience of golf and how important it is."

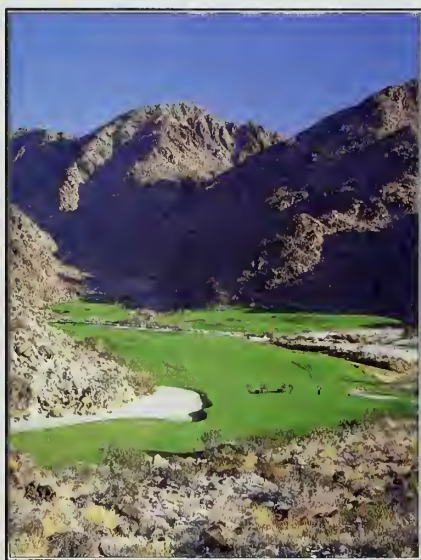
In fact, in its first year of ownership at PGA West, KSL spent the vast majority of its time and effort on, as the executive said, "maximizing the assets"—the seven golf courses—and relatively little on real estate development. It also had to do some fast tap dancing with the 1,700 or so members of the club, a group of whom had tried to put together a financial package to buy the place for themselves.

Despite some ruffled feathers, KSL has managed to keep almost everyone happy, switching one resort course to private and one private course to the resort, and beginning work on a brand-new Tom Weiskopf-designed course to be for members only.

In many ways, Shannon is exporting some of the same tactics that helped make Vail a success in the competitive ski business. Just one mountain in a state filled with great ski hills, Vail differentiated itself by becoming more things to more people: in addition to well-groomed ski trails, Vail offered fine restaurants, sophisticated shops,

wandering cartoon characters and nurseries for children, and even a tour and travel agency on site to help re-book the flight home. Does this mean we can expect Disney characters to be prancing in the rough at the Stadium Course at PGA West, or see the ninth-hole snack hut replaced by a chic California cafe serving angel hair pasta with sun-dried tomatoes?

Hardly. But Shannon knows that if his customers, whether a PGA West member, a guest of the La Quinta Resort or just a drive-by golfer, are going to continue to pay up to \$200 to play a round of golf on the Stadium course, they're going to have to feel like they got their money's worth. That means adding value to the golfing experience with everything from valet parking to good quality range balls to frequent visits from the beverage cart to angel hair pasta with sun-dried tomatoes for lunch after the round.



Santa Monica-based American Golf Corp. has largely focused on buying, leasing and operating public, municipal and daily-fee courses and upgrading them for fun and profit; while the Dallas-based Club Corpo-

ration of America has done the same thing, working instead mainly with private clubs of various kinds.

David G. Price, chairman and CEO of American Golf Corp. recalls that when he took over the Yorba Linda Country Club in Yorba Linda, California, 27 years ago, "I didn't know what the hell we were doing!"

But he did know that something was wrong in golf management. Private clubs were run by committees of the members on a part-time basis.



(From top) The Doral Blue Monster; the Stadium Course at PGA West; and the Mountain Course at La Quinta. Will corporate ownership spoil these splendid tracks?

And, a golf course kept in top condition, with fast greens, raked bunkers and good growing grass everywhere.

This formula is not a new one. Two other companies have been adding value to the golf experience for years, and have made millions doing so. The

and public courses were run largely by municipalities' parks and recreation departments.

"All we started doing was running a golf course like a business," Price says. "We started budgets, upgraded customer service, trained employees and we put managers in place to manage. We found out that golf professionals, for example, were good at some things, like teaching golf and interacting with people, but were not good at running food and beverage operations, doing marketing or, God forbid, accounting! So we put operations people on operations jobs, with everything from the pro shop to membership sales. And even though we didn't quite know what we were doing, we stumbled into a formula that worked. I'd like to take credit for being a genius, but I can't!"

Still, something must have

worked, because American Golf today operates more than 190 golf courses nationwide. The bulk of that is in daily-fee courses and resorts, but American Golf is moving into private club management as well.

That ground had been pretty much the territory of ClubCorp., which has estimated total assets of \$3 billion and annual revenues of \$1.2 billion. The company owns or manages more than 150 private country clubs, city athletic clubs, dining clubs, golf resorts and public courses. It all began in 1957 when company founder Robert Dedman, a young Dallas lawyer, decided to build the Brookhaven Country Club. He offered memberships for just \$280, despite the fact that the going rate at the fancy Dallas Country Club across town was \$10,000.

By running his club wisely, Dedman's enterprise flourished, and today Brookhaven, with some 5,000 members, is one of the world's largest private clubs.

"Most clubs are managed like nobody's business, because they are nobody's business," Dedman likes to recite. "What does an amateur golfer who serves on his club's committee know about soft-goods sales or agronomy? They're only guessing when it comes to making important decisions in running their club."

Dedman instituted common policies and procedures at all his clubs, including using the same financial report for every ClubCorp facility. "We know if electricity payments at a club have increased year to year," he said. "And if so, we want an explanation. By keeping a numerical score in every department, you don't kid yourself with adjectives. It's like golf: when a professional finishes a round, the only thing that determines how he did is a number, and lowest number wins. It's that simple."

ClubCorp has made a killing picking up after real estate developers in the last 40 years who, once the lots are sold, either neglect the golf course and club or turn it over to the members, those ill-informed amateurs.

With its management expertise and immense purchasing power in everything from triplex mowers to french fryers, ClubCorp can quickly turn deteriorating situations around.

But ClubCorp is far from being just the bloodless Wal-Mart of the golf business. Several years ago, the company acquired and resuscitated the historic Pinehurst Resort & Country Club in North Carolina, and two years ago agreed to bail out the Ingalls family, four-generation owners of The Homestead resort in Hot Springs, Virginia.

In a scenario that is likely to be repeated again, the family just didn't

settlers, not pioneers. The pioneers get to dodge the arrows, the settlers end up with the land."

And what do we golfers get? Well, the rising tide of increased competitiveness among golf courses at all price points should mean better-conditioned tracks, better-run operations and more frequent appearances by the beer-cart lady.

On the other side of the coin, one can expect an ever-increasing upwards creep of the greens fee, as more and more "maximizing the assets" takes place.

And there is a nagging little voice at the edge of the psyche, saying that with the bean-counters in charge, there will be a drift towards standardization in the game, with a very commensurate sacrifice of personality and character.

After all, Pebble Beach is not Oak Hill; The Broadmoor is different from La Costa. Here is the danger: as a growing army of MBAs marches into pro shops around America, demanding better bottom-line results each quarter, some Wharton-trained genius will come up with the brilliant realization that all the bunkers on his course are of different shapes and sizes. Why not make them all of a shape

that's not only uniform, but one that can be quickly and efficiently raked every morning? The Wharton guy will do a color pie-chart showing tremendous savings in man-hours per week, and get approval to standardize the bunkers. After six months of increased man-hour efficiencies, the policy will be extended to all courses in the region, and then, once the regional vice president wins promotion to the national headquarters, every golf course in the corporate realm will have the same shape and size bunkers, which can be raked out in 48.7 seconds each.

And then some Ph.D. will posit that by increasing the diameter of the hole to six inches, approximately 42% more putts will be made, thereby shortening the time-per-round cost-efficient and allowing an additional

*Some Wharton-trained genius will
come up with the realization
that all the bunkers on his course are
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*Why not make them all of a shape
that's not only uniform,
but one that can be quickly and
efficiently raked every morning?*

have the resources available to keep the aging, vastly sprawling and historic old place competitive.

ClubCorp does.

One can expect the corporatization of golf to continue apace for years to come. There are some 14,000 golf courses in the land, and as David Price observes, "There are probably several hundred hotel management firms, but maybe less than 20 golf course management companies. The industry is in its infancy."

ClubCorp is looking abroad for new management and ownership opportunities. And Mike Shannon says KSL Recreation continues to "pursue selectively new opportunities in destination resorts, looking for economic downturns and opportunities to purchase. We're

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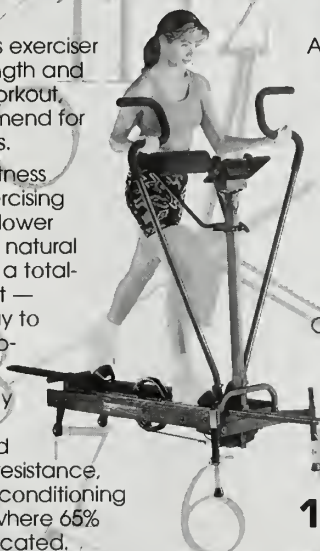
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Okay, perhaps I sound like an emotional Luddite inveighing against the onslaught of the Industrial Revolution, and perhaps we will never hear the loudspeaker at the golf course blaring out "Attention K-Mart golfers...there's a hole open on Aisle Four!" Perhaps the new corporate wave will only bring greater efficiencies to our game, and not the loss of the individuality that lies at its heart.

But, what if "maximizing the assets" means different things at different times?

All the statistics seem to indicate that golf's explosive growth shows no sign of slowing down anytime soon. Yet, Mike Shannon, David Price and Bob Dedman all agree that the National Golf Foundation's oft-touted standard that we need to open a golf course a day for the rest of the century to keep up with growing demand is so much balderdash. In fact, the Golf Inc. executives say, in many parts of the country golf is in grave danger of being over-built.

If that is so, and there is no real reason to think it isn't, who would be less hesitant to make the decision to plow up the fairways of the ill-used Gentle Zephyr CC for either condos or soy beans: the executive vice president of Golf Inc. or the elected board of the club? And while maybe Gentle Zephyr will be missed only by its 400 members, who would not feel pain at the loss of Pinehurst No. 2, Upper Cascades, the West course at Hershey CC, or Doral's Blue Monster?

And was that a tone of wistfulness I heard when Mike Shannon talked about the pioneers of skiing, those who would strap their skis to their backs, hike up a mountain, have lunch from their rucksack and swoop down? He compared that to today's skiers who enjoy computerized ski lifts, well-groomed slopes and gourmet restaurants.

But who, I wonder, had the most fun? ●

JAMES Y. BARTLETT tends to like things just the way they are.

YOU'VE JUST HEARD that you've got only 24 hours to come up with a competing bid for a big contract; the guy ahead of you at the bank's ATM is painstakingly going through his financial transactions for the last three weeks in four different accounts; your first serve on a match point at the club's tennis round-robin just went over the fence; your spouse is complaining that you two never go out anywhere anymore. And that's just today's woes.

It's the world of stress, a much talked about, widely lamented, but until now, little understood part of the human condition. Gallons of ink have been spent discussing stress on the job, stress at home, stress in relationships, and the toll it takes on the human mind, body and soul. An equal amount of verbiage has been dedicated to prescribing dealing with stress by eliminating it, by calming down, chilling out or getting mellow.

Yet while new research shows that stress can indeed lay waste to your vitals, other studies suggest that the cure for stress may not necessarily be simply ratcheting your brain down to a notch just above a blissful stupor. For not everyone suffers the slings and arrows of outrageous fortune in the same way. Some people actually like stress: the same stressful situation that produces a foggy brain and leaden legs in some can be an invigorating tonic to others, focusing the mind and revving the body. The difference between rising to the occasion—having what's called the "challenge response"—and having the "choking" or "tanking" response that numbs mind and body has a lot to do with a person's biochemistry, argue scientists. The precise mix of that biochemical cocktail is partly dependent on one's parents, partly on experiences, and ultimately, on one's attitude. But most important, it can be changed: when the going gets tough, it appears, the tough actually get tougher.

Stress is nature's way of putting your body on red alert—something that can come in handy if, for

instance, a lion has just taken a large chunk out of your backside. Your body responds to these kinds of calamities with a one-two punch: the adrenal gland, which sits atop the kidneys, pumps epinephrine and norepinephrine (née adrenaline) into your body, giving it turbopower by increasing heart rate, releasing sugar into the blood stream, and firing up the muscles to get out of there. The



Second Opinion

second response involves a different part of the adrenal gland, and it spews out a different hormone called cortisol. Cortisol has a longer effect and helps boost a person's endurance by releasing sugars in the body. Cortisol has a psychological effect, too: studies show that people injected with the hormone become more tense and anxious. Both kinds of stress responses evolved over the eons to perform a useful role depending on the circumstances, says psychologist Richard Dienstbier of the University of Nebraska. The first reaction is dandy for a hard-charging, breakneck sprint across the savannah. The second, panic-filled reaction can be helpful if you are a rabbit who smells a fox, for instance, and must stay quietly and intensely vigilant to the impending danger for a long time—even though the fox can't be seen or heard.

Like someone who must suddenly cash in his life savings to pay off a gambling debt, these biochemical shock treatments in response to stress divert the body's resources away from normal activities and concentrate them on what's needed to

Stressed For Success

.....

BY WILLIAM F. ALLMAN

deal with the trouble at hand. Blood vessels constrict, raising blood pressure to feed hungry muscles with oxygen; blood is also diverted from more pedestrian activities such as digesting food; and the immune system downshifts into low gear. But like the unfortunate who must spend his life savings in an emergency, the body, too, pays a dear, long-term price for its hormonal binge. Prolonged stress can make your guts go crazy, stunt your growth, raise your blood pressure, screw up your sex life and eat away at your brain. It can lead to anxiety and depression.

Because stress suppresses the immune system, it can also make you sick. In one recent study, for instance, couples were asked to come into a laboratory and try to resolve a long-standing dispute in their relationship. Monitoring the blood of the participants over 24 hours, scientists found that the more stressful the argument, the more both people's immune system abilities dropped. Studies show that people under great stress are more susceptible to colds and other maladies, and scientists also have uncovered a link between high stress and increased growth rates of cancer.

Many of these horrible effects of stress, however, are the result of the gush of biochemicals accompanying the "tanking" and "choking" kind of stress response, not the challenge response. And whether you have one or the other depends on who you are. In one study, for instance, Norwegian soldiers in basic training to be paratroopers were tested for their level of stress hormones as they practiced their jumps. Scientists found that those soldiers who consistently

performed the best jumps had high levels of stress hormones—but only of the adrenaline variety, indicating they had a "challenge" response to the jump; their cortisol hormone levels were low. Conversely, those soldiers at the bottom of the class who jumped poorly were found to have high levels of cortisol in their blood, reflecting an anxiety-filled "tanking" or "choking" response. Similar



The difference between rising to the occasion—having what's called the "challenge response"—and having the "choking" or "tanking" response that numbs mind and body has a lot to do with a person's biochemistry.

results have been found in students taking crucial exams for their studies and in U.S. military in basic training.

Studies of our primate cousins suggest that part of how one responds to stressful situations is rooted in the genes. In his research on monkeys at the National Institute of Child Health and Human Development, psychologist Stephen Suomi has found that some 20% of his simian charges can be characterized early in their lives as being "uptight," meaning that the monkeys consistently respond to changes in their environment or social challenges with far greater negative reactions, characterized by a gush of cortisol in their system. Suomi has found that this trait persists into adulthood. What's more, says the researcher, these personality types appear to be inherited: uptight mon-

keys typically are the offspring of those parents in the group who are also uptight. Yet genetics is not necessarily destiny: Suomi has found that taking a normally "laid back" monkey infant and putting it into a "foster home" of other orphaned monkeys will produce a high-stressed individual.

Research suggests that repeated, short-term bouts of stress can actually "toughen up" a person by boosting the chemical reaction characterized by the challenge response. In one study, rats were repeatedly handled, shocked or dunked in a cold water bath for short periods during the course of their development. When given the "final exam" of the experiment—an indefinite stay in the chilly water—those rats who had been previ-

ously exposed to bouts of stress proved to be far tougher, swimming longer than other rats in the experiment who had led cushy, non-stressed lab lives.

If a regime of ice baths or shock therapy seems too harsh, you might simply try exercise, suggests the University of Nebraska's Dienstbier. His new research hints that regular physical training can later lead to an increased biochemical "challenge" response to non-physical stressors such as a puzzle or exam. The reason this has not been noticed before, he says, is that athletically fit folks tend to have lower resting levels of the hormones in the first place, so it takes a prolonged bout of stress for the biochemical machinery to kick into gear.

But just as in athletics, where too rigorous or too long training can tip



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the scales from an elite athlete to an overtrained burnout victim, the bouts of stress must be short and not too strong to produce a toughening effect. (A catastrophic stress such as the loss of a parent early in life, for instance, often has the opposite effect, producing anxiety and depression.) More important, bouts of stress must be counterbalanced by periods of "recovery" in between. For ordinary people, that translates to "work hard—but play hard, too," says Dienstbier. "The person who spends his vacation simply vegetating probably isn't doing himself any favors," he says.

Taking tiny "recovery" breaks during a stressful time can have an immense effect in increasing performance, says psychologist James Loehr, author of *Toughness Training For Life*. Loehr, who has helped train tennis greats such as Martina Navratilova and Jim Courier, says that his key insight into toughness came when he examined what the best tennis players do during the roughly 20-second snatch of time between points during a match. Loehr found that mediocre players often spend that short period between serves reacting to the previous point—scolding themselves after a botched volley, for instance. But the best players, says Loehr, use that time to prepare for the next point: relaxing, planning their strategy, giving themselves a short pep talk. By focusing on the future, says Loehr, these champions are able to use that tiny bit of time to help recover from the last bout of stress and prepare for the next one. Loehr says it's a lesson that can be taken to the boardroom, too: in the "toughness training" seminars he teaches for executives, he prescribes short bouts of exercise or rest every few hours of the day, along with breaks where you take stock of what you want to accomplish that day, and how you've done so far.

In a larger sense, being "stressed for success" is a lot like being physically fit, says Stanford University psychologist Robert Sapolsky, author of the recent *Why Zebras Don't Get*

Ulcers. Like a finely-tuned Lamborghini, a fit person has the bodily machinery to marshal all the physical systems needed to quickly go from zero to 60—and just as quickly put on the brakes when it is no longer needed. Unfit folks, on the other hand, take far longer to warm up into action, are far less efficient when they finally do get going, and take far longer to cool down. The stress response is similar, says Sapolsky: people whose stress response is optimally tuned—quintessential "tough guys"—are not those who experience little or no stress response. Rather, they are people who can marshal the appropriate biochemistry to deal

Quintessential "tough guys" can marshal the appropriate biochemistry to deal with the stress at a moment's notice, creating a big boost of helpful hormones for the task at hand, and then just as quickly, turning it off.

with the stress at a moment's notice, creating a big boost of helpful hormones for the task at hand, and then just as quickly turn it off.

Ultimately, whether you have a challenge response or a tanking response has a lot to do with your attitude. The miracle of the human mind is that merely thinking in negative or positive ways actually changes the biochemistry of the brain, producing a physical response that affects how you perform at a task. You don't have to be a Zen master to change your thinking patterns, says Loehr. One simple exercise at the next golf game or road race is to simply vow that as soon as negative thoughts pop into your head you'll turn them off and think positive thoughts—call it the Pollyanna paradigm. The surprising thing, says

Loehr, is that such "positive self talk" actually works.

The key to producing a "challenge" response to a stressful situation is creating a feeling of control. Experiments with mice show that those rodents who are able to push a button to turn off a random shock react far less stressfully than those who have no control over their fate but receive the same shocks. Scientists used to marvel at how executives who daily juggle a billion dollars worth of business avoid a stress overload, but it turns out that it is not these executives who feel stressed, it's their lowly assistants who feel little control of their day-to-day workday lives. Focusing on those aspects of a stressful experience that you can control—even if it's only making a list of the things that will be pounding you through the week—wins back a bit of that feeling of control, and helps boost the challenge response.

Ultimately, the biggest way to boost your challenge response is to not dwell on the stresses great and small over which you have no control. It turns out that the classic "Type A" personalities don't get heart disease because of their quick reaction to a challenge. Rather it is only those people who have what the doctors call "free floating hostility"—angry at everything and anything. Those excruciating moments waiting behind some knucklehead at the ATM? Use them to take a mental break for organizing your thoughts or relaxing with a fond remembrance of a piquant, moist moment. The problem with modern life is that we have been blessed with a physiological legacy perfect for running from lions—but it is often wasted on pussy cats. Next time some bozo cuts you off at an intersection, keeps you waiting at a table in a restaurant, or misses an appointment, try to remember that one day, you're going to want those stress hormones for something that really matters. And have a nice, challenging day. ●

WILLIAM F. ALLMAN *stays cool in Chevy Chase, Maryland.*



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Verona Is For Lovers

Or so JOHN TIERNEY thought—until the operas began

ILLUSTRATIONS BY JIMMY HOLDER

It was only after I got the tickets for the Verona opera festival that I began to have doubts. Until then it had sounded like the perfect vacation for a couple at that delicate stage of a relationship when helpful friends are starting to ask, "So, any marriage possibilities?" Verona offered such superb prospects for romance: locally produced wines and arias to be enjoyed under the summer moonlight, timeless operas performed in a Roman arena surrounded by medieval streets and Renaissance palaces. But then I looked at the festival program and contemplated the lovers' fates in the five operas:

One is strangled to death in a fit of misplaced jealousy by her partner, who realizes his mistake and fatally stabs himself. (Verdi's *Otello*.)

One dies of tuberculosis, leaving behind a grief-stricken lover and a household impoverished by her health-care expenses. (Puccini's *La Bohème*.)

Two are buried alive in an Egyptian tomb and use up the last bit of oxygen proclaiming their joy. (Verdi's *Aida*.)

Two, after their love affair not only displeases their families but also leads to the destruction of the temple of Jerusalem, enter Babylonian captivity and commence a new career as slaves. (Verdi's *Nabucco*.)

Two happily leap together into the raging flames of a funeral pyre. (Bellini's *Norma*.)

As if this mayhem on stage weren't enough, we were going to be watching it in a town best known for an event that could be summed up by a tabloid headline, "CLAN-FEUD LOVERS IN DOUBLE SUICIDE AT CRYPT." Romeo and Juliet were not my idea of role models. Given Verona's saturation of media violence, I suggested to Dana that we set ourselves a modest goal for the vacation: "Let's try to keep our relationship as non-lethal as possible."

Verona's great attraction, besides the opera festival, is its status as a beautiful Italian town blessed with relatively few art masterpieces. This means that it's not quite as mobbed with tourists as Venice or Florence or Rome. Even more important, it means you can while away an afternoon without feeling guilty about skipping the three churches and two Michelangelos that every civilized person *must* see. There are museums and churches if you want them, but you're free to save your aesthetic energy for the opera. You can spend your days wandering from piazza to piazza searching for the perfect espresso and gelato. You have the leisure to cultivate new tastes. Our first day in Verona, I found it odd to hear Dana admiring the decrepit brown stucco walls on Verona's buildings. By the end of the week I was the one exulting: "Look—peeling plaster! What a shade of ochre!" Verona makes you appreciate antiquity. You begin to realize how many generations of people it takes to produce a truly pleasant vacation spot.

At the Piazza dei Signori, for instance, the first thing you notice is a statue of Dante, celebrated here for his role as an ideal houseguest. During an exile from Florence he stayed at the palazzo on the square, and in gratitude he extolled the family patriarch in *The Divine Comedy*. Near the statue you can walk on the stones that made

Verona famous: part of the pavement laid by Roman highway engineers, who arrived in the first century B.C. Verona became a crossroads of Europe, the strategic spot at the edge of the Italian plain where the road from the Alps intersected with routes to Rome, Milan and Venice. It was such a nice location, nestled against the hills on a bend in the Adige River, that a succession of barbarians swooped down over the centuries—Ostrogoths, Franks, Lombards, Austrians, French and Germans.

When they were not repelling foreigners, the Veronese had a habit of fighting among themselves, and their bloody family feuds inspired the local legend that Shakespeare turned into *Romeo And Juliet*. The historical particulars of the tale are suspect: nitpickers have argued that the Montagues and Capulets were actually allies—and therefore, from today's perspective, tragic victims of media hype. But the Veronese do not let the facts interfere with a good story. They have designated a 13th-century building, supposedly associated with the Capulet family as Juliet's House. When I asked the proprietor of the restaurant in the courtyard whether the real Juliet had actually stood on this balcony, he shrugged and looked at me a little wearily, as if to plead: why do you want to spoil the fun, buddy? Then he smiled and gave a diplomatic reply: "*Si dice*." So they say.

The Veronese have been teaching tourists to lighten up ever since Goethe had a midlife crisis and produced a classic of travel literature, *Italian Journey*. In 1786, at age 37, he abruptly left his job in Weimar and

hopped in a coach for Italy. As he crossed the Alps, leaving behind German weather and Germanic temperaments, he exulted at Italy's sun and fresh fruit and grapevines. "If someone who lives in the south or was born there were to overhear my enthusiasm at all this, he would think me very childish," Goethe wrote.

On his way to Verona, Goethe stopped just west of the city, at Lake Garda, and his favorable report inspired tradition. His compatriots have been flocking to Garda ever since, and whatever you may think of vacationing among German windsurfers, you can't fault them for their taste in lakes. Garda, Italy's largest lake, offers refreshing breezes and a dramatic landscape of Alpin cliffs and foothills. The shore is a series of small resort towns, the most unusual of which is Sirmione. To reach it, you drive out a narrow peninsula until you come to a walled settlement protected by a moat and an array of mighty towers capped with a distinctive type of merlon—which, by the way, is a useful word for any traveler to Europe. When you look at the series of notches along

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A simple, "Get a load of those merlons!" will do anywhere, although it is more subtle to mention the "delicate yet robust merlonic motif of the crenellated parapet."

the top of a castle wall, the merlons are the little protruberances that the defenders would hide behind while dumping boiling oil out through the adjoining spaces (which are called crenels, another useful word). Once you have mastered this, you will never be at a loss for words. A simple "Get a load of those merlons!" will do anywhere, although it is more subtle to mention the "delicate yet robust merlonic motif of the crenellated parapet." At Sirmione you should take note of the curved tops by casually murmuring, "If I'm not mistaken, those are Ghibelline merlons."

After crossing the bridge over the moat, you discover what Sirmione's walls are protecting: a medieval town turned into a shopping mall. The narrow streets are mobbed with Germans buying T-shirts, sunglasses and gelati—not always a pretty sight, but trying to drive through them makes for an unforgettable motoring challenge. And when you get beyond the town, you can tell yourself that the experience has been a form of purgatory, because you come to a fairly good approximation of the heavenly gates. They are massive iron portals, mysteriously operated by an unseen hand somewhere high

above, that swing open to the grounds of a magnificent resort. A winding road takes you up a hill to the Villa Cortine Hotel, a 19th-century villa surrounded by cypresses and olive trees, gardens, statuary, fountains, tennis courts, a beach and terraces with spectacular views of the lake in both directions. On the grounds is a house where Maria Callas once lived—the kind of detail that means everything in these parts, as we discovered during a driving tour of the region around Verona.

This is music country, dotted with landmarks like the humble stone house near Busseto where Verdi was born and the large villa a few miles away that he built after the royalties started coming in. The nearby town of Parma is renowned for having a splendid opera house frequented by the world's most critical audiences. Cremona has a wonderful exhibit at the Palazzo Comunale where you can see and hear the violins made by locals like Stradivarius. Mantua is worth a visit, too, particularly if you can arrange to drive into it with the cassette player blaring the final scene from *Rigoletto*—in which an innocent lover follows operatic tradition by bleeding to death while the evil Duke of Mantua walks back to his palace

whistling cheerfully. We took a tour of that palace, which turned out to be a fairly boring place until the last stop, a bridal chamber tucked away in a tower, whose walls are covered with some of the most glorious frescoes of the Renaissance, the masterpieces of the painter Mantegna. (Advice to the impatient: try to bribe the guards to let you skip the mandatory tour and go straight to the frescoes.) We were considering visiting another home in Mantua, one marked on the map as the House of Rigoletto, until we thought to ask a local man whether a hunchbacked jester had ever really lived there.

"*Si dice*," he replied with a familiar shrug.

We took care to blend the musical tour with the other aspects of local culture. The vineyards near Verona produce excellent soave, bardolino, and valpolicella wines, as well as a special variant known as amarone. It's made from the best valpolicella grapes, which are dried for six months, pressed, and then aged for three years to produce a wine with some of the lushness of port. An Italian friend, Gianfranco Maraviglia, instructed us in both the wines and in the proper technique for choosing a good restaurant in the Italian countryside: "All you have to do is find a pharmacist and ask him where he eats. There's always a pharmacy in these villages, and the pharmacist will be a person with some education and money." The only problem with this technique is that you have to speak Italian. I had thought that my study of opera libretti had properly prepared me, but I found myself stymied at key moments. I would want to ask directions, and the only phrase that

came to mind was, "If you betray me, I will extinguish with blood the evil flame that burns within you."

But that vocabulary came in handy in the evenings at Verona's Arena, which must be the world's most congenial environment for opera. It sits on one edge of a huge piazza bordered by outdoor restaurants and cafes, a public space so friendly that, for the first time in my life, I actually enjoyed watching the performance of a mime. The Arena, one of the largest Roman amphitheaters in existence, is an open-air oval that has been used since 1913 for the summer opera festival. The singers perform without microphones, and the remarkable thing is that their unamplified arias actually reach the upper seats—a tribute to Roman acoustical engineering as well as to the miraculous human voice. The technical quality was generally good—the staging was a little stiff at times, and the singing wasn't as consistent as what you hear at the Metropolitan Opera, but the Arena's other virtues more than compensated.

*The piazza in Verona
is a public space so friendly that, for
the first time in my
life, I actually enjoyed watching the
performance of a mime.*

Other opera houses strive to create the illusion of classic grandeur; Verona starts out with an enormous Roman monument and builds a spectacle on top of it.

Each night, just as darkness set in, the overture would begin, and devout operaphiles throughout the audience would hold up candles—partly to read their libretti, but mainly to edify one another with the sprinkling of lights. The moon would do its part by rising over the Arena as the plot unfolded. Legions of extras would appear at the top rim of the Arena, above the towering backdrops of the sets, and proceed all the way down to the stage filling

VA BENE IN VERONA

Verona's 1995 opera festival runs from July 7 through September 3. Tickets are often available at the box office the day of the performance, and you can always turn to scalpers or a well-connected concierge, but it's best to order ahead from the box office. (No credit cards; payment must be mailed. For details and availability, call: 39-45-800-5151; fax: 39-45-801-3287.) Top-priced orchestra seats are closest to the

stage, but you'll hear best from the "numerata di gradinata" seats just above the Arena's floor. The 1995 repertory features *Rigoletto*, *Aïda*, *Carmen*, *Turandot*, and the double bill of *Cavalleria Rusticana* and *I Pagliacci*.

It's a good idea to book your hotel by early spring. In Verona you can emulate Mozart and Goethe by staying at the Due Torri (39-45-595-044). You'll find less elegant but comfortable lodgings at the

Accademia (39-45-596-222)—Maria Callas is said to have favored room 360—or at the Victoria (39-45-590-566). You can commute to the opera from the shores of Lake Garda, most luxuriously from the Villa Cortine in Sirmione (39-30-916-021), which will arrange tickets and transportation. For less celestial accommodations and prices, try the nearby Hotel Ideal (39-30-990-4245), which offers spare modern rooms and a beautiful garden.



One night, under the influence of a full moon and an emptied bottle of amarone, I disregarded all of Verona's cautionary lessons and gave Dana an engagement ring. I dutifully warned her that we might soon find ourselves enslaved, stabbed to death, or buried alive, but she dismissed the dangers by casually shrugging and replying, "Si dice."

One end of the amphitheater's floor. One evening, during Verdi's *Nabucco*, 200 extras and nearly 200 singers filled the stage for "Va, pensiero," the famous haunting chorus in which the Israelites sing from their exile in Babylonia of the joys of their homeland. As the voices slowly faded out at the end, the hush of the Arena was broken by a few neophytes clapping a couple of seconds too soon—a forgiveable offense in most opera houses, but not here so close to Verdi's home. The applauders were silenced by their neighbors' angry "Shhhh." Then, to the delight of the purists, the conductor stopped the action and had the masses on stage perform an encore. This time the audience got it right: all 15,000 people listened in rapt silence until the last pianissimo note faded into the night.

It was a lovely, lovely moment, although I realized that something was missing for me. The reason you go to the opera, aside from the pleasure of letting the music wash over you, is to experience that occasional moment when you have suspended disbelief—when you have overlooked the wretched excess and forgotten how silly

everyone looks—and come to empathize completely with the singer. The Israelites' lament could not have sounded more achingly beautiful, but at the moment, sitting under the stars in the Arena 3,500 miles from home, I couldn't really empathize with anyone's longing for his homeland. If this was exile, exile seemed just fine. In fact, it seemed so consistently fine throughout our visit that one night, under the influence of a full moon and an emptied bottle of amarone, I disregarded all of Verona's cautionary lessons and gave Dana an engagement ring. I dutifully warned her that we might soon find ourselves enslaved, stabbed to death or buried alive, but she dismissed the dangers by casually shrugging and replying, "Si dice." We somehow managed to leave Verona on good terms, and as of this writing we are both still alive. Even more surprising, the two families seem to be getting along reasonably well. ●

New York Times columnist JOHN TIERNEY and Dana Groseclose will be married this June.



[A MODEST PROPOSAL]

An aerial illustration of a large, multi-story building with a flat roof and several wings, situated on a green lawn. A missile is launched from the building, leaving a long, straight white trail that extends towards the top left of the frame. In the bottom left corner, a yellow aircraft is shown in a steep climb, leaving a white smoke trail. The entire scene is enclosed within a high, grey stone wall with a chain-link fence on top. The background is a solid light blue color.

AN IMPREGNABLE —YET COZY— CASA BLANCA

BY BRUCE MCCALL

*A Billion-Dollar Makeover
Ensures One First Family's
Domestic Peace of Mind*

BARELY VISIBLE TO THE VISITOR IN THE moody, nay, Stygian gloom of a reception room freshly refenestrated in four-inch-thick solid metal billets, the first lady of the house toys with the dimly green-glowing keys of her laptop missile launcher and reflects on the makeover—bulletproof Brunschweig chintzes here, flame-resistant Porthault sheets there, bombproofing everywhere—that has lately cast a new serenity on this Federal-style urban Washington home-cum-office. And on its perceptibly less antsy chatelaine.

“Raw prestressed concrete, lots and lots of metal grillwork, no daylight except for the gunports—the concept team at the NSC had very, very definite ideas about what ought to be done with this house. It’s a new look alright, but it’s

one we can live with, if you catch my drift." Her voice rises, as if to drown out the sound of the Huey landing on the roof overhead.

"Not that we ever intended to simply ash-can the aesthetic side," warbles she, handing her guest one of the Kevlar flak-deflecting helmets strewn about like so many chafing dishes. "For example, we'd planned to have local schoolkids in, to finger-paint designs on all those concrete retaining walls." A pause here, a fumbling to regain composure quivering on the brink. "But you see, none of them...well, let's just call it a security-clearance impasse, shall we?"

"Those gilded picture frames, all that Hepplewhite and Chippendale, had to go." The NSC's Arts and Armaments Liaison Officer, Commander Baxter ("Biff") Gonad speaking. "That stuff would splinter into a million bits under any mortar attack. And metal chairs. Stuffed upholstery is a fire hazard, you know."

Arch-traditionalists—and Washington was teeming with them, long before Congressman Gingrich toddled into town—might carp about the wholesale removal of 200 years' worth of accumulated national heirlooms and knick-knacks in favor of the lean-and-mean, hunkered-down, bunkered-down new Post-Survivalist look. Why the decision to re-do this grand old bone-white manse into what joshing Washington chums have taken to calling the Khaki Cave?

Our hostess glances askance at the TV monitor ceaselessly sweeping the grounds before answering and, reassured, trades her laptop launcher for a custom-designed single-shot .410 hand-bag cannon—"my Bill Blast," as she kiddingly calls it, lovingly kneading the smooth, cold ammo clip as if it were a darned egg.

"Simple hospitality," she finally

declares. "Nothing puts the kibosh on an elegant state dinner quite as fast," she muses, echoing perfectionist hostesses everywhere, "as enfilading AK-47 fire pumping six rounds a second into the Cherries Jubilee from a hundred feet away.

"And then there are the kamikazes," she continues, enunciating all four syllables of a word that clearly means "icky" in this lady's argot. "Just try catching 40 winks when you're half-expecting a Cessna nightcap! Plus, it plays



*Raw prestressed concrete,
lots and lots of metal
grillwork, no daylight
except for the gunports...*

absolute hob with the rooftop radar to have airplanes landing without proper clearance, so to speak. I mean, we love the job the FAA is doing, but...."

It is a wistful voice that trails off, just in time for the wall-mounted Klaxon horn to signify an unauthorized entry into Socks the cat's corner of the family's nearby private quarters. No matter: the instant flash of red and green lights, the distant thunder of boots on Axminster, the muffled crump of semi-automatic fire, are the living soundtrack of another domestic crisis quelled amid this laid-back yet take-no-prisoners lifestyle where

the dominant color is Code Red.

With that "what-next?" frown so common to harried hostesses everywhere, our dainty tour guide rises to switch off the perfect dummy replica of herself parading in circles around the room as a decoy target for would-be assassins. "Darn thing's radio-controlled," she trills, "and it keeps tripping the nerve-gas dispenser. They say you can't get a plumber on a Saturday night? Try getting hold of the CIA!"

The thought has turned her pensive, and a guest feels an empathetic surge: for what, after all, could more completely mar the glee of afternoon tea with Mrs. Byelorussian Defense Minister than a chandelier-mounted canister showering down toxic mist enough to turn the baked Alaska into a Chernobyl meringue? The lady hath a point.

But plumbing mishaps or no, lackaday, the life of state must go on. And so that it can, so must we, chivvied exitward with that oh-so-gentle yet unmistakably urgent, snug yet bowel-loosening .410 gun barrel in the small of the back that few hostesses can bring off—or would fain even try.

"Gift of the Saudi-Arabian people," she gushes as we wait for the electronic door lock to buzz open, hefting an exquisite porcelain dove like a new bride preening over a Hummel figurine. "Hand grenade. Tear a man apart from ten paces."

At last the buzzer and bells sound, the bolts are loosed, the armed escort seizes us under the armpits. Stumbling out onto Pennsylvania Avenue a few moments later, one is all a-tingle: our hostess' stimulating guided tour, or our escort's stimulating electric cattle prod? Alas, no time for idle pondering. Not with the armored personnel carrier bearing down on one side, and the Abrams tank on the other! ●

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24 HOURS IN

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IF YOU CAN MAKE IT IN FROM THE AIRPORT TO SOUTH BEACH WITHOUT GETTING SHOT, MIAMI MIGHT BE THE MOST FUN CITY IN NORTH AMERICA. LET THE MEDIA CARP ABOUT DRIVE-BY SHOOTINGS, DRUG SMUGGLERS, PHONY LAND VENTURES, AND A FEW ARMED REVOLUTIONARIES. TO A CASUAL VISITOR WITH SURVIVAL SKILLS, IT'S ALWAYS SATURDAY IN MIAMI, AND THE HUMAN CONDITION IS NOWHERE ELSE AS VISUALLY PLEASING YEAR-ROUND. LIKE AN OUTLANDISH STEW OF ST. TROPEZ, SOHO AND HAVANA, MIAMI MAY NOT MAKE SENSE, BUT THEN COMMON SENSE IS NOT WHAT'S BEING APPEALED TO HERE.



There are many Miamis, spread across 16 islands. Some you don't want to know about, much less explore; some no longer seem compelling, like, say, Jackie Gleason's. The one everyone gets in a lather about today lies at the southern end of it all, a national historic register area known as South Beach, or even SoBe. The square mile from 6th to 23rd Street is the largest Art Deco district in the world, with about 800 "important" buildings dating from 1923 to 1943. Ten years ago they wrote it off as the most faded of God's waiting rooms; now it's a pulsating, streamlined heaven, if your vision of the afterlife means salsa, margaritas, a gaggle of modeling agencies, the glare of sunlit sand and little sleep.

9 The most direct approach to South Beach is simply to cab it to the **News Cafe**, drink yourself legless on iced cappuccinos, watch the beauties go by with the beach glittering behind, and read Carl Hiassen's *Tourist Season*, a carefree, bloody romp about a Florida crocodile with a voracious love for out-of-staters. To get maximum enjoyment out of Miami, however, it helps to have a Cuban companion with plenty of time on his hands. Like my old friend Jorge.

I had warned him that for this visit I had only a day. "So what's the mystery?" says Jorge (a professional violinist), collecting me at the airport. "Take off your jacket and leave the rest to me."

Clear the Decos:
the main drag
of the largest
Art Deco district
in the world.



BY ANTHONY WELLER

Beach

As you speed across the MacArthur Causeway the first sight of South Beach's Ocean Drive will astonish you: gone is geriatric Miami. Instead you're cruising a film set with real palm trees, water and gorgeous young people. You head a block inland and, if you're lucky, park.



*'Hood ornament:
a très glam period vehicle.*

10 The 11th Street Diner

is a chrome-and-formica 1946 relic made more authentic through a loving restoration: two old dining cars mashed into one structure, a collision that was an improvement, as one's a bar now.

(Their milkshakes and malts are famous as the best on the beach.) The menu boasts standard Miami fare: macaroni, tofu, omelettes, marinated dolphin, cheese-cake, smoked salmon and bagels. Though the diner's consistently voted the best place for late-night eats, Jorge insists we gather our energies there with breakfast.

"You want me, or you want good service?" says our waitress.

In Miami double entendres are often the preferred gambit.

"Don't ask me these philosophical questions," says Jorge.

11 A few doors down we look into a good general food and bar joint called **Lulu's**. "My temple of art," Jorge insists, referring not to the downstairs devoted to American kitsch (service station signs, old Coca-Cola ads) but the upstairs devoted to the King—Elvis carpets, film stills, guitar clocks, license plates, street signs, lamps, statues, busts, plates and a reproduction of the first dollar he ever earned (April 1951). If Elvis were currently making movies, this would be a primo setting: *Viva South Beach!*

There is, of course, the beach itself, a long, broad stretch of hard sand, surprisingly clean, surprisingly top-

less, with free wooden lounge chairs. Freighters and the occasional sailboat awaken the horizon, but you're not really watching them anyway. A bronzed man in peak condition is meditating upside-down in a yogic posture without warning he upends and dashes into the gleaming water, past two naked Scandinavian masterpieces discussing Ibsen. The sea is warm and very clean—unbelievable, to be able to swim so easily right in a U.S. city like a weird new definition of civilization.

Through the palms, the pastel, rectangular Art Deco skyline of whites, blues and yellows seems too low for this century. Volleyball is played seriously on the sand, the beauty of the conception, as Jorge puts it, is you wear as little as you want, and who notices?

"No one but you," I suggest.

"Now listen, amigo," says Jorge. "You're new in town so I'm going to offer you a choice. For lunch we can either stop by my apartment, hustle up a little tuna fish sandwich, some mustard, some mayo, catch a game show. Or else we stick to fabulous Miami Beach, we check out one of the important structural achievements in what they call the Art Deco idiom where I happen to know bartender almost personally, and you can eat four-star food, a little wine, and experience the supreme beautiful female genius of the world strutting back and forth like targets, man, in a holy shooting gallery, you know what I'm saying? So I'm giving you the choice."

"I'll take the shooting gallery," I say.

And along Ocean Drive they do walk past, as if paid by the hour: models on rollerblades, in sandals, in bikinis, arm-in-arm in conspiracy against a gaping mal world, occasionally passed by a her windsurfing along the esplanade on skateboard-cum-sai-



"The way of all flesh," is surely in front of the News Cafe.

1 At The Colony (its triple-sided neon sign on of night's icons in South Beach) a new comer is downright grateful for the fierce

air-conditioning that enables him to better appreciate pastel walls, half-globe lights, enormous potted palms, marble tables and a great '30s painting of a jungle scene. Best of all is the food in such a lavish setting (the restaurant fronting a hotel, by the way): lobster gazpacho, pan-fried crab cakes, a mango crème brûlée in a "hurricane" of fruit sauces. While you're debating coffee, a madma-



The mural of the story, at the 11th Street Diner.

named Jorge starts screaming that it's time for a Madrid newspaper.

2 A minute's walk up Ocean Drive you reach the **News Cafe**, the epicenter of the social earthquake that shook Miami a decade ago. A man of reason, unencumbered by Jorge, has little to do except plonk himself alfresco and wait as only people in tropical climates can, for all the beauty and foreign press of the world to arrive....

3 "Buddy boy, we're wasting time here," said Jorge, and yanks me off towards Coral Gables—where the wealthy traditionally built their mansions. The grandest, right beside Madonna's recent multi-million-dollar acquisition, is **Vizcaya**, an Italian Renaissance villa with gardens built in WWI for James Deering, who co-founded International Harvester. The gardens took five years; the entire 180-acre enterprise employed a tenth of Miami's population, and involved cutting back tropical jungle and putting in a railroad, a dairy, a poultry farm, a mule stable; fruit, vegetable, flower gardens; tennis courts and canoe waterways. Following Deering's death in 1925 (he had a brief period of enjoyment after it was finished), his heirs sold it to Dade County. A museum now, it's become what Deering evidently intended: his living monument, a latter-day equivalent of Cheops' Pyramid.

6 After all this highbrow culture my nerves are a bit frayed, so we roar back to South Beach to **The Sterling Club**, a swank pool room with a perod bar, where 12 superb tables are just getting underway.

Jorge takes dinner money off me and suggests we eat early. "You want to lose again, we can come back at 4 a.m."

For dinner **Amano** is still the place, if you can afford it, in ultra-modern decor in the only non-Deco building on Ocean Drive. The menu is a schizophrenic local melange of nouvelle Miami: macadamia-crusted soft shell crab with soba noodles and Thai curry butter sauce, followed by almond, black pepper salmon and citrus couscous, or Chinese B.B.Q. chicken with plantain mash corn flan, and a passion-fruit cheesecake with raspberry sauce.

*A man of
reason
has little to
do but wait
for all the
beauty and
foreign
press of
the world
to arrive...*

10 Jorge has raved about **The Stephen Talkhouse** all day—an ideal-size music club, with a courtyard bar in back. He says they consistently offer world-class salsa, and when they don't, Lario's On the Beach does.

"And tonight, my friend, is no exception," said Jorge. "We are talking about a monumental event in Miami salsa. A hot local band named Abasi with two unbelievable guests. Both legends in Havana. Cachao on bass—an inventor of the mambo who revolutionized salsa back in 1959 with one historic jam session. And on congas,

Patato. I don't know when they came over, but this night you won't forget."

He isn't exaggerating either. Cachao, an enormous man with a brooding forehead (like a mulatto bull elephant in suspenders), attacks the bass as if it were a percussion instrument, pulling the rest of the band (piano, drums, chiquita singer) into his riffs. Patato is his opposite—a small, dapper, mahogany man, mustached, in Borsalino hat, tie and jacket, approaching 70. Not much bigger than his four congas, he treats them like disobe-



Loud and lively at The Stephen Talkhouse.

dient children, admonishing, instructing and commanding; instead of a blitzkrieg of speed he controls the attention with a few whacks that bring people to their feet. It is incandescent, joyous music, and at intermission Patato goes from table to table getting his picture taken with females of all ages. My favorite is a voluptuous young woman in a slinky black dress who, propelled by the music, does a sexual shimmy through the club that has the musicians sweating and the crowd roaring. She turns out, naturally, to be a feature journalist for *The Miami Herald*.

12 After so much music we're both hungry, so at midnight Jorge and I end up at one of the best Cuban restaurants in town, the **Puerto Sagua**, which looks like a New York coffee shop except for the 3-D mural of Havana's Plaza de Catedral in the back. A fried *bisteco palomilla* gets me moving, along with

overnight at the sleek, black, modernist rooms of the Century Hotel on Ocean Drive, I feel I need a break from South Beach, so I get Jorge to drop me at the majestic **Grand Bay** over in Coconut Grove, Miami's only true five-star hotel. I am surprised, by this point that they let us stagger in.

"Don't worry so much, amigo," is Jorge's final message, as he delivers me to the airport the next morning. "Never forget: in Miami the sun always shines for the cool." Here endeth the sermon. ●

ANTHONY WELLER
is currently shivering in Gloucester, Massachusetts.

coffee like jet fuel.

Now that we're awake, and one in the morning we need a drink, and out of too many chic bars Jorge chooses a fancy, low-key bar-restaurant, **The Strand**—grand in scale, spacious, high-ceilinged, with latticed lights, marbled arches, great red sofas, mosaiced columns, and great hanging urn lights in domes, with a good menu as well. According to the pretty bartender the crowd is always "lots and lots of models and a few lecherous men—you guys stand a very good chance." As to which one she doesn't specify.

Tempting as it is to

A midnight refresher course.



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Lulu's. 1053 Washington Avenue at 11th Street. 305-532-6147.

Colony Restaurant (and Hotel). 736 Ocean Drive. 305-673-0088.

News Cafe. 800 Ocean Drive. 305-538-6397.

Vizcaya Museum and Gardens. 3251 South Miami Avenue. 305-250-9133.

The Sterling Club Poolroom. 1242 Washington Avenue. 305-531-2114.

Amano. 1440 Ocean Drive. 305-531-6266.

The Stephen Talkhouse. 616 Collins Avenue. 305-531-7557.

Lario's On the Beach. 820 Ocean Drive. 305-532-9577.

Puerto Sagua. 7th and Collins Avenue. 305-673-1115.

The Strand. 671 Washington Avenue. 305-532-2340.

The Century Hotel. 140 Ocean Drive.

305-674-8855.

The Grand Bay Hotel. 2669 South Bayshore Drive, Coconut Grove. 305-858-9600 or 800-327-2788.



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Newsweek: 10/31/94







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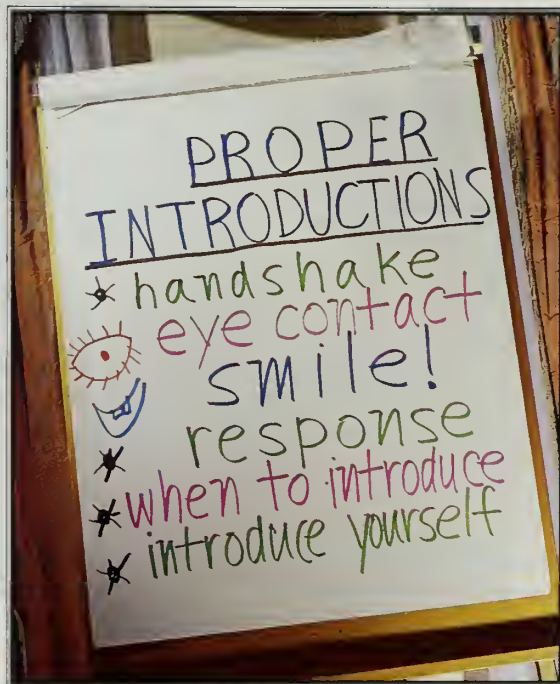
Ladies and gentlemen."
Huh? You mean us?

Sullenly separated for one sunny Saturday from their Game Boys and Topsy Styling Tools, the assembled children survey Judith Ré, self-proclaimed *directrice* of the Academie for Instruction in the Social Graces, with understandable suspicion. After all, during her day-long course on "Social Savvy" at Boston's Ritz-Carlton Hotel, the elegantly attired Ms. Judith intends to succeed where all parents have failed: teaching manners to children.

But not to worry, dear reader. Ms. Judith knows what she is about. (The surname is Portuguese, by way of Holyoke, Massachusetts. The whole French thing is kind of a pose.) She learned her own Old World manners at her parents' dinner table, and during visits to European relatives. Several years ago, while watching a pair of ill-mannered urchins ruin their parent's restaurant meal, Ré realized: "In busy, two-career families, nobody's at home long enough to teach their children manners." So for the past eight years, shuttling among Boston, New York, Cleveland and Los Angeles, Ms. Judith has been doing it for them.

Can Ms. Judith turn nose-fingering, suburban ducklings into socially savvy swans? I enrolled my eight-year-old son Christopher, who blew off the group's early-morning tour in favor of a pressing soccer commitment. Sweaty and a tad surly, he caught up with his class of two other boys and six girls just in time for...flower arranging. *Naturellement.*

ENFANTS Not-So- TERRIBLES



THOSE CHILDREN OF YOURS
NEED A COAT OF VARNISH?
A LITTLE MORE "FINISHING"
THAN THEY CURRENTLY POSSESS?
HERE'S ONE WAY TO GET IT

BY ALEX BEAM

I. LES FLEURS

Yes, flower arranging. The Ritz has laid out nine bulb-shaped vases and a panoply of freesia, iris and Queen Anne's lace for the children to, uh, dispose of as they see fit. After 15 minutes, Ms. Judith sidles up to the long table and comments on her pupils' creations.

Generally speaking, the girls have fashioned harmonious combinations—something tells me they've done this before—and the boys have jammed the stalks in helter-skelter. Future Florists of America they're not. "Each one of these reflects your personalities," Ms. Judith coos, tactfully ignoring the psychological farrago revealed in the tangled underbrush. Commenting on one boy's design that pays homage to Phyllis Diller's hairdresser, Ms. J. says: "That looks like something from the jungle." She knows the child will take this as a compliment, and he does.

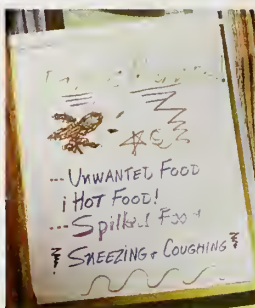
II. LA TABLE

Shortly before noon, the children buckle down to some serious etiquette training. The Ritz has laid out ten place settings, complete with silver, china plates and fan-folded linen napkins, around a table for them. Ms. Judith identifies the various utensils, endures the inevitable groans at the mention of the salad fork ("SAL-ud? We're having SAL-ud?"), and then

summons the children to the table.

Gastronomically speaking, the lunch surges over the top. The hotel's award-winning kitchen has prepared a shrimp hors d'oeuvre ("SHREY-imp! Yuck!"), a chicken breast cooked in Champagne and

caviar sauce—a far cry from the children's habitual McFare. Towards the end of the repast, the wait staff presents a palate-clearing papaya sorbet. This passes muster with the finicky McKids, because it tastes like ice cream, sort of.



Undaunted by the *sotto voce* complaining and one *basso profundo* belch, Ms. Judith cheerily imparts useful knowledge: always look the server in the eye; use the “power finger” (in her world, the index finger; in their world, the Bird) when cutting and when spearing with the fork. If you must burp, “sometimes you can do it with your lips close together,” although leaving the room is preferable. When finished with your meal, leave your silverware in a 4:30 position (facing down and to the right) so the servers will know you are done. Against all odds, some of this is actually sinking in.

III. LE SMALL TALK; LE MACAULAY CULKIN

Small talk is hard to explain to boys and girls under 12 years old, because their conversation is by definition quite Lilliputian: Beavis's latest *mot*; correct use of the Creepy Crawlers oven; will the red Power Ranger ever return? Ms. Judith likens chat to volleyball: the point is to keep the bladder in the air. “Steer away from politics and religion,” she says. “Don't talk about what it was like when the Berlin Wall came down.” (Little enough chance of that, don't you think?) “Ladies and gentlemen, just because you're young doesn't mean you don't have anything to say for yourselves.”

Well, yes and no. As an acceptable subject for conversation, Ms. Judith suggests table mishaps. My ordinarily laconic son tells his mess mates how his mother's hair once caught

fire in a Prague restaurant. (Funny, I don't remember visiting Prague....) Dizzy with success, he regales his new friends with stories of his father being fed dog biscuits as a child. Polite tittering ensues.

A brief etiquette module features introductions and greetings, and the correct formulas for introducing important people, e.g. your parents, to less important people, e.g. your friends. This won't be a



Small talk is hard to explain to boys and girls under 12 years old, because their conversation is by definition quite Lilliputian.

problem should you meet with the President, Ms. Judith explains, because he has his own staff of professional introducers. One boy poses a stumper: what if Macaulay Culkin visited your home? Isn't he more important than your parents? Absolutely not, Ms. Judith replies. Clearly, no one believes her.

IV. LES PATISSES; LE TELEPHONE; LE FITNESS CLUB

While digesting their four-star chow, Ms. Judith's wards are force-fed a potpourri of new information. Minions wheel in a cart piled high with delicate pastry shells, fresh strawberries and melted chocolate. Then the Ritz's pastry chef Paw Mikkelsen shows the children how to decorate “Boston Swans.” They watch in rapt attention, as if this might show up on the Groton admissions test.

Then it's on to telephone etiquette, taught at dummy phone consoles separated by a screen. “Joshua, what do you do if you get a crank call?” Ms. Judith asks the class cut-up who, Christopher tells me, has been showing off some salty language in the men's room. True to form, Joshua answers: “If you know who it is, you crank call them back.” *Mais, bien sûr, Mme. la Directrice!*

When his turn comes, Christopher fields a call from Alexis, a tall, willowy,



Art appreciation? After a turn with Ms. Judith, nothing is too far-fetched for parents to imagine.

11-year-old fox hailing from one of the region's more desirable zip codes. "Is Christopher Beam in?" she asks. "No," he replies, "Christopher is in the shower." I upbraid him later, sharing my own life experience. Whatsa matta wif you! You think the foxes call every day?

In the late afternoon, Ms. Judith has scheduled a strategic visit to the hotel's health club, to let the children work off excess energy on the Stairmaster before changing into evening attire for the Grand Finale....

V. LA DANSE

"Sometimes the ladies and gentlemen can be a bit...nervous before a dance," Ms. Judith says, standing in front of a trembling Joshua, who is about to pay dearly for his earlier imitation of Sir Toby Belch.

Earlier, Ms. J. told me that "her" children wax most inventive when dreaming up excuses not to participate in the dance lesson. Young girls evoke the scourge of flesh-eating bacteria; old athletic injuries tend to flare up in 10-year-old boys. A touch of the vapors; that flushed feeling—could it be Lyme disease? Any ailment can break out when the children march into a small banquet room after dinner, and spy the waiting tape deck and the miniature parquet dance floor, and grasp the full horror of the Dancing Lesson.

But Christopher's group is—dare I say it—well-behaved? Yes, the boys cringe in a corner, slurping their ice cream sundaes, hoping against hope that the dreaded music will never begin. But when Ms. Judith calls them forward, they face their fate like men.

The Fearless Leader seizes Joshua, claps his right hand around her waist, and snatches his left

hand in hers. Waiting for "Blue Danube" to swell its banks, she calls out: "Get ready, here it comes." Then the gentle thunder of Strauss rolls through the room, and the "ladies and gentlemen" stumble back and forth in graceless, triple time. They don't protest, they don't chafe; there is even an undercurrent of small talk audible in the room: "Where were you when the Berlin Wall came down?" (Well, not quite.)

Needless to say, I am amazed. The wild horses have been broken; the domestication process has begun. A few minutes later, their parents swoop in to fetch the children back to exurbia, where—in spite of their underage selves—the lessons of the "power finger," proper phone conversation, and of the dance floor, will never be entirely expunged.

Now, when grasping for squishy bags of ketchup at fast-food emporia, Christopher always says, "Please."

The last time he capsized his brother's Super Size Diet Coke in an effort to steal some McChow, I thought I heard him say, "Excuse me."

The specter of Ms. Judith hangs over us, like a friendly—and exquisitely mannered—ghost.

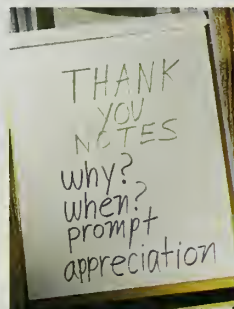
Model parent ALEX BEAM neither spares the rod nor spoils the child.

Judith Ré teaches Social Savvy seminars to children each year at the Ritz Hotels in Boston, New York and Cleveland; and at the Century Tower in Los Angeles; the Four Seasons in San Francisco and Seattle, and the Windsor Court in New Orleans. Cost: \$175-\$250. Her Academie ("academy" makes it sound like a karate school, she explains) is located at 182 Beacon Street, Boston, Mass. 02116; 617-267-0107. Tell them Christopher sent you.



"That one looks like something from the jungle," Ms. Judith tells one boy. She knows he will take this as a compliment, and he does.

THE GENTLE THUNDER
OF STRAUSS ROLLS
THROUGH THE ROOM,
AND THE "LADIES AND
GENTLEMEN" STUMBLE
BACK AND FORTH IN
GRACELESS TRIPLE TIME.
THEY DON'T PROTEST,
THEY DON'T CHAFE....
THE WILD HORSES
HAVE BEEN BROKEN;
THE DOMESTICATION
PROCESS HAS BEGUN.



MY DAY WITH MS. JUDITH

BY CHRISTOPHER BEAM

One Saturday last fall I went to a Social Savvy class at the Ritz-Carlton Hotel in Boston. Judith Ré was the teacher. She was a very nice person. She asked us to call her "Ms. Judith" in the thank-you notes we wrote to her, so that's what I'm going to call her now. Ms. Judith really wanted us to remember the manners that she taught us. As I said, she is a very nice person.

My favorite things that we did were aerobics in the health club and learning how to eat your food. The Ritz's health club was not very big, but I'm sure all the kids liked it. It had a stair climber that shows you how



many calories you burned, how many stairs you climbed and even how many floors you went up.

I don't know why I liked eating lunch so much. I just thought it was fun learning how to cut your food. Some people didn't like the shrimp and olives. I thought the shrimp was okay, but the olives were a little bit too salty.

I think the kids were plenty well behaved, although some of the kids were getting a little hyper at the end of the day. I think that I

might have been one of them. The course is very interesting, and if you have kids, you might want to send them to it when Ms. Judith holds it again.

WHAT TO DO? ASK MS. JUDITH

I

You are at a wonderful dinner party and suddenly you realize you are about to pass gas, break wind, etc. *Try to hold it. But if it has to happen excuse yourself and go to the bathroom.*

II

At someone else's house, you accidentally break a pretty vase that belongs to your hosts. *Apologize. Clean up the mess. If it can be replaced, do so. If it cannot be replaced, do your best to select another vase.*

III

You want to negotiate your allowance. *Work up a budget. Sit down with your parents and explain what your needs are. Don't mention college tuition.*

IV

A tiny piece of food is caught in your braces. *First, try to use your tongue. If this doesn't work, wait for a pause between courses and go to the bathroom. There, you can use whatever implement you like: finger, toothpick, etc.*

V

You are allergic to dogs, you haven't brought your medicine, and two cocker spaniels greet you at a friend's home. *You have several choices. If the medicine you need is sold without a prescription, you could apologize for being unprepared and ask if someone might accompany you to the nearest drugstore. Or you could throttle the spaniels. ●*

(Freely adapted from *Social Savvy* by Judith Ré with Meg F. Schneider. Summit Books, New York, N.Y.)



THE GRAND TOUR REVISITED

BY LUCY KOSERSKI
PAINTINGS BY MICHAEL FRITH

The grand tour used to take young aristocrats of the 1700s on continental trips to soak in some culture and to buy up as much art as possible for the stately pile back home.

The grand tour travelers of that era might be surprised to learn that now it is the British Isles that are rich in highbrow pickings. The cultures of jaunty Scotland, bountiful England and beguiling Ireland

are enriched by centuries of tradition and all offer wonderful things to do and wonderful places to stay. And this year especially, there's the chance of a lifetime to savor Britain at its best, for the British Tourist Authority has sparked up to a thousand events in England and Scotland as part of its 1995 Festival of Arts and Culture.



There's a heady list of contenders for the starting point of a 1995 grand tour, but the Edinburgh International Festival, August 13-September 2, must win top place for Scotland under any arts and culture banner. The Festival Fringe alone rates as the largest arts festival in the world, with more than 1,000 companies putting on 12,000 performances in 180 venues. At the heart of the Festival season will be the city's newly opened, state-of-the-art Edinburgh Festival Theatre. Playing host to the Scottish Ballet and the Scottish Opera, the theater boasts the largest stage in Britain and will be a number one venue for the Festival.

Guests taking the Edinburgh Festival package at the **Gleneagles** hotel will be chauffeured in style to Festival events. Set in dramatic countryside some 50 miles north of Edinburgh, Gleneagles has frequent link-ups with the capital's cultural scene, and provides year-round packages to help guests enjoy the new theater.

The exploits of swashbuckling hero 'Rob Roy' MacGregor were romanticized by Sir Walter Scott, and inspired the movie, *Rob Roy*, starring Liam Neeson, due for release in April. At Gleneagles, Rob Roy packages take guests on the outlaw's carousing and cattle-rustling trail as well as to the Rob Roy Heritage Centre in Callander.

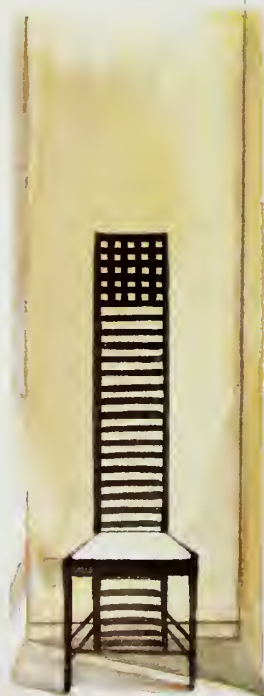
Gleneagles is part of The Leading Hotels of the World, which has many world-famous members throughout the British Isles. Famous for its golf courses, it hosted the Bell's Scottish Open in 1994. It also wins accolades for its food. 'Scottish cuisine is among the best in the world,' says the hotel's celebrated executive chef Alan Hill. Though a *Sassenach* (born

and bred south of the Scottish border) by origin, Alan was ready to demonstrate his claim on U.S. television's Food Network by serving haggis in a 'sauce with a kick' made from Talisker whisky.

Another leading hotel, the **Caledonian**, will be right in the thick of the Festival events. With its prime location on Edinburgh's famous Princes Street, the hotel offers views of Edinburgh Castle from its Pompidou Restaurant and from 70 of its bedrooms. It is conveniently placed for the Edinburgh Military Tattoo, which takes place August 4-26.

This year, the Tattoo's massed bagpipe bands and drums at the Castle will pay tribute to the royal house of Stuart and celebrate the 250th anniversary of the Jacobite Uprising when Bonnie Prince Charlie rallied the clans in a bid to regain the twin thrones of Scotland and England.

Edinburgh's latest shindig is a three-day festival centered on traditional New Year's Eve Hogmanay celebrations, with a torchlight procession, a bonfire, fireworks, a carnival, concerts, and a Hogmanay ball. In the two years since this 'Edinburgh Hogmanay' Festival was launched it has become the biggest street party in Europe. Having won a 'best breakfast of the year award' recently, the Caledonian, or 'The Caley' as it is affectionately known by the locals, offers positive recuperative measures for the morning of 'Ne'er Day,' as the first day of the New Year is known here. It joins in



the city's revels with its own year-end party, featuring Scottish dancers, a piper and a dance band.

Not to be outdone by Edinburgh, Glasgow stages 'Mayfest,' its International Arts Festival, between April 28 and May 20, an annual International Jazz Festival between June 30 and July 1, and the World Pipe Band Championships on August 12. The city's tribute to the Jacobite Uprising is 'Charlie's Year,' an exhibition at the Kelvingrove Gallery running between June 3 and August 27.

Glasgow has been named the UK City of Architecture and Design for 1999 and is already basking in its glory, with plans to kick off in 1996 with the largest-ever retrospective exhibition about Charles Rennie Mackintosh. The Scottish designer-architect's striking art nouveau buildings and stunning but simple furniture designs are to be found throughout the Glasgow region. In stark contrast to the over-fussy tastes of the day, Mackintosh's controversial ideas were a great influence on European design.

The city also has a wealth of Victorian architecture, which spills over into the countryside with grand hotels like the white-walled Edwardian **Turnberry**, on the dramatic southwest coast, just 53 miles away. The hotel is linking up with Glasgow's events to give its guests a choice of Leading Hotels of the World three-night special packages in conjunction with American Express.

The packages are based on specific events, with the first starting May 17, centered on the opera *The Marriage of Figaro* on May 19. The second begins July 4, with a concert by Jessye Norman on July 6, and the third October 1, with a concert by the St. Petersburg Philharmonic Orchestra on October 3. Included in the packages is one spa treatment or a round of golf on the hotel's challenging Ailsa course, the venue of the 1994 British Open. Dinner is served in a choice of restaurants, including one with breathtaking views of the islands of Ailsa Craig and Arran.

A MACKINTOSH CHAIR (LEFT), ONE OF MANY OF HIS DESIGNS THAT HAVE COME TO SYMBOLIZE A REBIRTH OF THE ARTS IN GLASGOW

THE EDINBURGH TATTOO (BELOW) WITH THE CASTLE IN THE FOREGROUND.



Across the Irish Channel, Ireland's quirky personality makes for many a congenial evening of anecdotes among the locals. The Irish don't have a word meaning *mañana*, they like to tell you over a pint at O'Donoghue's, one of Dublin's many live music pubs. What they do have is the *craic*, which is Gaelic for a mix of chat, stories and humor, to be enjoyed in almost any Irish pub.

The Irish Tourist Board delights in showing an ad with a signpost pointing to Galway in three different directions. Little wonder, then, that Dublin's best place to stay turns out to be not one but two leading hotels: **The Berkeley Court** and **The Westbury**. Both boast fine antiques and paintings as well as modern luxurious facilities. The Berkeley Court is located in the exclusive Embassy area of Dublin, just ten minutes' walk from the town center. The Westbury is in the heart of the city, right next to the fashionable shopping district.

Both The Berkeley Court and The Westbury can arrange tickets for numerous events, including the Dublin Horse Show, August 7-12, and the Leopardstown race meetings, from July to November and at Christmas, as well as for other major race meetings. Transfers to the events are arranged for hotel guests who have access to a reserved enclosure once they arrive.

There is certainly nothing livelier than the Dublin entertainment scene. Film makers adore the city and countryside. At events like the annual Dublin Film Festival, March 7-16, international directors rub shoulders with homegrown talent, such as Neil Jordan, director of *The Crying Game* and *Interview with a Vampire*.

The Dublin Theatre Festival takes place between

October 2-14, and the Dublin Grand Opera Society's winter season runs at the Gaiety theater, from November to December. Both The Berkeley Court and The Westbury can arrange tickets for their guests, subject to availability. They will also organize chauffeur-driven half-day tours of the city or full-day tours of the countryside.

Tastings of the local scene are on offer all year round. The art of writing makes a good theme for enjoying the city, from the 8th-century *Book of Kells* in Trinity College library, to the Dublin Writers' Museum, which includes recent authors in its displays on Irish literary history. The Literary Pub Crawl visits places frequented by James Joyce, Brendan Behan and Samuel Beckett. The Dublin Footsteps Walks take in medieval or Georgian Dublin.

A three-hour parade marks the high point of St. Patrick's Day, March 17. On Bloom's Day, June 16, costumed enthusiasts re-enact the day described by the hero of James Joyce's *Ulysses*.

Over in England, a grand tour itinerary has particular cachet when Royalty is in attendance.

During Cowes Week Regatta on the Isle of Wight, Her Majesty's yacht *Britannia* is usually moored offshore, and this year's event, July 29-August 5, is likely to be no exception.

Prince Philip frequently sails aboard a friend's yacht, often with ex-King Constantine. He takes part in first-





class racing on the Solent, the sheltered channel between the Isle of Wight and the mainland, which has the challenging depths and tides of a miniature sea. Princess Anne, President of the Royal Yachting Association, may well drop by for a race or two against the backdrop of the island's white cliffs.

The mainland county facing the Isle of Wight is Hampshire, where the **Chewton Glen** hotel offers a charming inland base for guests on its five-night Cowes Week package, which includes breakfast and table d'hôte dinner. The hotel, an elegant 18th-century country house, has its own cultural theme, for a previous owner was Captain Frederick Marryat, author of *Children of the New Forest*, and its decor echoes this literary motif. Cowes is about an hour away, including the ferry crossing.

Sweeping vistas add delight to any grand tour. **Cliveden**, a hotel that was once the Astor family home and made headlines with the Profumo affair in the 1960s, overlooks the river Thames from a hill-top in Berkshire. Once the stately home of dukes and a Prince of Wales, Cliveden was designed for entertaining. Its grand rooms are now a background to the hotel's special events, like the soirées, with music and readings, organized by the managing director's wife, actress Jenny Agutter. The comedienne Joyce Grenfell was related to the Astor family, and a tra-

ditional four-day Christmas is recreated here exactly as it was described in her writings.

The hotel's 375 landscaped and woodland acres rank as one of the country's top gardens to visit. They are now owned by the National Trust, which celebrates its centenary this year with a jam-packed program of events up and down the country including concerts, outdoor opera, open-air theater, regattas, craft fairs and flower shows.

Quintessentially English' is a fitting description of the countryside settings of Cliveden and Chewton Glen but it is also an expression often used about the elegant Georgian city of Bath, unique in Britain for its hot spring water still flowing into the Roman baths complex. The Bath International Music Festival, May 19-June 4, uses this and other architecturally striking venues for its concerts.

The city's honey-colored stone buildings form a stunning backdrop to the opening night of the Festival, when the street lights are off, and a lighted candle shines in every window. **The Bath Spa Hotel** arranges for chauff-



four-driven cars to take guests to the many Festival events and to its own sponsored concert on May 28, when the Nash Ensemble is performing in the Assembly Rooms. The hotel is a lovingly restored 19th-century mansion set in seven acres of gardens, with individually decorated rooms, some furnished with four-poster beds.

COWES WEEK (LEFT), WITH HMS BRITANNIA IN ATTENDANCE

RACING IN DUBLIN (ABOVE), AND THE EXQUISITE FOUNTAIN IN THE GARDENS OF CLIVEDEN (RIGHT).

English country house style has been the inspiration for the redecoration of the bedrooms and suites at **The Dorchester** in London, which reopened in 1991 after a comprehensive two-year renovation. The canopy bed used by General Eisenhower during World War II is still the focal point of the suite named after him.

Celebrities like staying here – according to Charlton Heston the tub in the marble bathroom of his suite is the only one he has come across on his travels big enough for him to get his knees under water.

Centrally located overlooking Hyde Park, The Dorchester is a self-contained world. "Calling The Dorchester a hotel is rather like calling champagne a fizzy drink, or caviar a sandwich spread," said one ecstatic guest. Others never leave the premises, preferring to enjoy free use of the Spa, with its gymnasium, sauna, steam room and aromatherapy, hydrotherapy and other stress-reducing treatments; or spending their time shopping in the arcade and attending dinner-dances in The Terrace, one of the three restaurants. Such pampering is the essence of a Romantic Weekend Break.

A sense of occasion, part of the 'grand tour' philosophy, applies to everyday life in England. Even afternoon tea is a special event, and nobody does it better than a top hotel celebrating a birthday. London's **Four Seasons Hotel** is 25 years old and its Anniversary Afternoon Teas this year are notable events, thanks to Sam Twining, from the ninth generation of the famous tea-exporting family. Sam has devised a special anniversary blend of tea, as well as selecting an appropriate blend for each season (this summer will feature Rose

Pouchong, for example). The hotel's executive chef has matched these with four sorbets, served in pastry cups, and four jams. Christian Pol-Roger of the renowned French champagne firm has also created a limited edition *cuvée* champagne to celebrate the event. This is an essential ingredient of the Sterling Silver cocktail.

Arts, music, fashion, food and wine are highlights of the hotel's calendar this year, including Celebratory Weekend packages. And if you're getting married this year – or got married in 1970 – then the Silver Night package would make a romantic occasion, complete with a chauffeur-driven limousine tour of London and accommodation in a sumptuous suite.

Shakespeare has obligingly contributed a special event for the BTA's festival theme. This year is the 400th anniversary of *A Midsummer Night's Dream*, one of the highlights of the season for the Royal Shakespeare Company at its London base, the Barbican Arts Centre, from March 1995 to January 1996.

There is also a special Shakespearean treat in store for fans of the Bard this year. An Elizabethan theater is being built by the Thames, the first timber-framed and thatched building to be erected in London since the Great Fire of 1666. This is an exact replica of the Globe Theatre which once stood nearby and for which Shakespeare is said to have written

Hamlet, Othello,

OPENING NIGHT OF THE
BATH INTERNATIONAL
MUSIC FESTIVAL (THIS PAGE).
STREET ENTERTAINER AT
COVENT GARDEN (ABOVE),
AND DANCER AT ROYAL
OPERA HOUSE (RIGHT).



King Lear and Macbeth.

The recreation of the Globe will be a dream-coming-true for the late American director-actor Sam Wanamaker, who set out to build this memorial. As part of the Festival of Arts and Culture, it is planned for workshop performances to be staged here during the summer. An unusual souvenir is also on offer – 'your name in history' – or

your name engraved on one of the flagstones that will pave the piazza surrounding the theater, alongside those already sponsored by actors John Cleese and Sir Anthony Hopkins.

London can still enchant visitors with such off-beat corners, but the mainstream events never lose their appeal, especially when enhanced with an anniversary celebration. A Verdi Festival will be held at the Royal Opera House, Covent Garden, June 12-July 15, the start of a seven-year marathon to present all 28 of the composer's operas before the centenary of his death in 2001. The whole Covent Garden quarter is *en fête* all year, thanks to street theater events and the myriad street entertainers, whose favored spot is in front of St. Paul's church, where Professor Higgins met Eliza Doolittle in the film *My Fair Lady*.

At the Royal Albert Hall, the Henry Wood Promenade Concerts, or 'The Proms,' celebrate their 100th season. Among the venues hosting Purcell ter-centenary concerts is Westminster Abbey, where the composer, who was once its organist, is buried.

The Chelsea Flower Show, May 23-26, is a much-loved fixture in the social calendar, but a relative newcomer to the scene, the Hampton Court Palace Flower Show, July 5-9, is now the largest such event in Europe,

with seven interconnecting marquee tents of floral displays. Its background is the sumptuously decorated palace, a half-hour train ride from central London. Costumed entertainers regularly perform in the William and Mary rooms and actors recreate Henry VIII's court in the Banqueting Room.

As tennis fans make headlines for record-breaking consumption of strawberries and cream at the Wimbledon Lawn Tennis Championships, June 26-July 9, top players battle on the courts for a much prized trophy, presented by The Duke and Duchess of Kent in often emotionally charged ceremonies. Princess Diana is a frequent spectator at the famous Centre Court here.

The heady combination of fixed social 'musts' of the season, a steady supply of anniversaries ready for plucking from an eventful history, local festivals galore, and any number of impromptu celebrations means 'grand tour' travelers will always find plenty to explore in the British Isles.



The British Tourist Authority could have chosen no more fitting a theme to promote for 1995 than arts and culture. And the Leading Hotels of England, Scotland and Ireland will keep coming up with ideas to ensure that the Festival will be savored in style.

For your information pack on Britain,
call The British Tourist Authority TOLL FREE 800-873-5033



THE LEADING HOTELS OF THE WORLD IN ENGLAND, SCOTLAND AND IRELAND

For reservations, call The Leading Hotels of the World
TOLL FREE 800-223-6800 New York City 212-838-3110

SCOTLAND

CALEDONIAN HOTEL

An Edinburgh landmark, with classical architecture and spacious rooms boasting luxurious fittings. French and traditional Scottish cuisine are served in the Pompadour Restaurant, which boasts views of Edinburgh Castle.

Princes Street, Edinburgh
TEL: 011 44 131 225 2433
FAX: 011 44 131 225 6632

GLENEAGLES

Set in its own 830-acre estate, the hotel has two world famous golf courses as well as a new championship course, the Monarch's. Its Country club has an indoor pool, a health spa, tennis, squash, falconry, croquet and bowls. There is a shooting school and equestrian centre.

Auchterarder, Perthshire
TEL: 011 44 1764 662231
FAX: 011 44 1764 662134

TURNBERRY HOTEL

Set in an extensive private estate on the dramatic west coast, the hotel offers championship golf courses, a luxuriously appointed spa and fine restaurants offering classic Scottish and French cooking or informal 'lifestyle' cuisine.

Turnberry, Ayrshire
Tel: 011 44 1655 331000
Fax: 011 44 1655 331706

IRELAND

THE BERKELEY COURT

Luxury prevails at this hotel, set in the former botanical gardens of Trinity College, Dublin, and finely furnished with antiques. There is an indoor swimming pool, sauna, boutiques and excellent restaurants. Near Dublin city center in the business district, it is often the choice for Royalty and heads of state.

Lansdowne Road
Ballsbridge, Dublin
TEL: 011 353 1 660 1711
FAX: 011 353 1 661 7238

WESTBURY HOTEL

In the heart of Dublin, this elegant and charming hotel has well-appointed rooms, a mini-gymnasium and a superb restaurant as well as the Terrace Lounge, a popular meeting place for drinks and afternoon tea. The Sandbank Oyster and Stout Bar also serves meals, with emphasis on local fish and seafood.

Grafton Street, Dublin
TEL: 011 353 1 679 1122
FAX: 011 353 1 679 7078

LONDON

THE DORCHESTER

Overlooking Hyde Park in London's Mayfair district, the hotel has 252 individually decorated rooms and suites in English country house style and provides attentive service backed by the latest technology. It has a full service health spa and three renowned restaurants.

Park Lane, London
TEL: 011 44 171 629 8888
FAX: 011 44 171 409 0114

FOUR SEASONS HOTEL

In the heart of Mayfair, overlooking Hyde Park, the hotel has elegantly appointed bedrooms, two celebrated restaurants and a fitness club, exclusively for the use of guests, as well as special amenities for children.

Park Lane, London
TEL: 011 44 171 499 0888
FAX: 011 44 171 493 1895

ENGLISH COUNTRY

THE BATH SPA HOTEL

Overlooking one of England's most beautiful cities, the hotel is a converted 19th century mansion, with a ballroom that is now an elegant restaurant. There is a health and leisure spa with swimming pool, gymnasium and beauty treatment rooms as well as outdoor tennis and croquet.

Sydney Road, Bath
TEL: 011 44 1225 444424
FAX: 011 44 1225 444006

THE CHEWTON GLEN

This beautiful Georgian country house in 60 acres of parkland has an outstanding restaurant, a health and beauty club, indoor tennis courts and a snooker room as well as an outdoor swimming pool, tennis and croquet. Golf, riding, fishing, shooting and sailing facilities are nearby.

New Milton, Hampshire
TEL: 011 44 1425 275341
FAX: 011 44 1425 272310

CLIVEDEN

Britain's only stately home to have become a hotel, Cliveden commands views across the River Thames, yet is only 25 miles from central London and 20 minutes from Heathrow Airport. Guests enjoy horse riding, squash, indoor and outdoor tennis and indoor swimming pool and spa facilities.

Taplow, Berkshire
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DOGGED PURSUITS

In the field where the world's finest pointing dogs go nose to nose



IT WAS A FINE morning for pointing dogs. Cool enough that they could run without getting tired and with the ground a little damp so the scent would hold. A big high-pressure system was parked out over the Gulf so the weather wouldn't change much. At dawn, you needed a jacket, but by noon you would be down to shirtsleeves.

Driving into Horseshoe Plantation, outside of Tallahassee, I admired the way the piney woods looked, here in the Florida Panhandle. The tall, almost magisterial long leaf with the understory of small oak and dogwood. The occasional vast live oak, which seemed to spread more than grow. And the clean places under the pines where the ground was covered by tawny

brown broomweed.

It was fine-looking country, even beautiful to my eyes but, then, I had grown up in it. To some, I suppose, it might look a little flat, monochromatic, monotonous and poor. Since the boll weevil killed the cotton late last century,

this country hasn't been good for much but scratch farming, turpentine, a little timber...and quail.

The quail hunting around these parts might be the best in the country. But the little partridge is ubiquitous, and that is not an easy case to make. What is beyond argument is that nowhere in the world has quail hunting been raised to a higher status than in a few hundred square miles between and around Tallahassee, Florida, and Thomasville, Georgia. This country is to quail hunting what the bluegrass of Ken-



The dog owners and their guests follow the day's action from the saddle or from the comfort of a shooting wagon, pulled by a team of mules.

tucky is to thoroughbreds and Bordeaux is to wine.

It began late in the last century and early in this one when wealthy industrialists and financiers began fleeing the winters of Pittsburgh, Cleveland and other bleak northern cities for the warmth and ease of the South. The train line, those days, went as far as Thomasville, so that is where they stopped. The area featured several resort hotels, with warm springs and the kind of things that might appeal to the idle ladies who arrived with servants and steamer trunks. Their men, being more energetic sorts, were bored blind.

So they got some of the local boys to take them hunting, and when they saw just how good the quail shooting was, they began to buy up land, which was absurdly cheap, by the thousands of acres. Then they built houses on that land which, inevitably, they called "plantations," though many of them were grander than anything any old Confederate had ever contemplated. They came down every winter, lived in their fine homes, and spent their days at sport...hunting quail.

Wherever it is done, the rituals and the joys of quail hunting are, above all else, connected with dogs. In no other kind of hunting is the importance of good dog

work so critical. With no dog to locate the birds, you are lost. A bad dog is not much better. A good dog makes the thing rewarding; and a great dog can turn it into something sublime, so that the hunter becomes more spectator than anything else. The dogs, in short, are the stars. At the end of the day, you seldom hear talk of how well anyone shot. The conversation is about how well the dogs worked.

So it was inevitable that the plantation owners, who certainly spared no effort or expense in the breeding and the training of their dogs, would arrange for competitions among them. Americans—especially successful Americans—love a competition. As for the dogs...well, they love merely to hunt.

THE FIRST WINNER OF THE GEORGIA-FLORIDA Field Trail Club's annual trial, held in early March of 1916, was a dog named Joe, which is almost perfect for a hard-going pointer. You like a name that you can shout effortlessly in the field. "Whoa, Joe." "Steady, Joe." "Come on around, Joe." There have been thousands of Joes and they have pointed millions of quail. Winners over the next two decades included Lady, Jack, Ben and Dan.

The names of some of the original 30 members of

*The country around Tallahassee,
Florida, and Thomasville, Georgia is
to quail hunting what the bluegrass
of Kentucky is to thoroughbreds and
Bordeaux is to wine.*

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The handlers, like this man, have worked with their dogs since they were weaned. It is a competition between them as much as the dogs.

the club were vastly more impressive, among them Whitney, Fleishmann, Hanna and others that would be familiar to the kind of people who study *Town & Country* magazine. These people, however, were serious about their sport. Serious enough, a couple of decades later to sponsor the work of Dr. Herbert L. Stoddard whose Tall Timbers Research Station—supported by gifts from plantation owners—produced important work on the ecology of the piney woods and the bobwhite quail. Stoddard's work was valuable purely as scholarship. But it also helped the plantation owners become first-class “quail farmers.”

Over the years the quail hunting actually improved. Some of the plantations changed hands—the American money aristocracy being a fluid thing—and the dog names became a little pretentious, perhaps as a result. The 1992 winner was “Seminole Gallant Effort”—a hard name to say, in the field. His owner was Rankin Smith, who also happens to own the Atlanta Falcons.

But if the names had changed, the soul of the event had not. It was still grounded in the pure blood urges of the dogs and the mechanics of the hunt as developed almost a century earlier. And a visitor, here for the first time, could hardly wait to get started. I stood on a red clay road, holding the reins to my horse and sipping coffee. The air smelled of pine resin and saddle leather, dogs and mules.

At 8:30, the first brace of dogs was put on the ground, and the trial began. Behind the dogs there followed, in order, the judges and marshals on horseback, then a couple of hundred members and their guests. They rode horseback, also, usually on Tennessee walking horses whose gait is suited for this kind of work where you seldom move very fast and you like to sit comfortably, since you can spend virtually all day in the saddle. Behind the horses, moving in a column along bushhogged trails, came the shooting wagons.

The shooting wagon is indigenous to the plantation belt. They are built over two sturdy axles with leaf springs and very large spoked wheels with balloon rubber tires. The shooters sit high on a bench under which are built dog pens. The wagons are pulled by a team of either mules or horses. Some people have been using mules for 50 years, others horses. You can get a discussion going about the relative merits of each.

And then, off on another bushhogged trail, came a column of jeeps. The internal combustion engine made its first appearance after the Second World War. They were admitted with reluctance and are still conspicuously segregated.

The sheer size of this armada made it impossible to watch every dog work its allotted 26 minutes. The column would wind around a small cypress swamp, and you would lose the head of it altogether. So you would make conversation with the person riding next to you, or admire the lines of a pair of muscled buckskin mules pulling a wagon that carried people in their Barbour jackets and Harris tweeds. Or you might just admire the way the light played through the tops of the pines and across the understory of gum, dogwood and jack oak. It was a fine day for that, too.

But now and then, you would make your way to the head of the column, and then you would see two rawboned pointers, coursing the broomweed, followed by their handlers, the judges and, then,

Dunhill

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their owners who watched every move.

These were the stars of kennels that might number three- or four-dozen dogs. They had been bred out of other stars and worked with by full-time handlers from the day they were weaned. They had the instincts from birth—otherwise they would not have lasted in the kennel—and they learned the technique the old-fashioned, hard way. Their trainers, like the judges, looked for speed, range, stamina, staunchness, style, steadiness and discipline. For that combination of virtues that comes down, in the end, to “heart.”

A pointer—especially one of these pointers—craves the hunt. In the field, when a handler selects one dog from the boxes on the mule wagon, the dogs that have been passed over wail over the injustice. The dog that has been chosen stands on the ground quivering while he waits for the command to hunt game. And

run...these dogs will go all day, go until they drop, go until they hit the state line, and if nobody is looking, go on across it. They are the original “big going dogs.”

One of the first things a trainer does is teach the dog to run in something other than a straight line aimed at the farthest hill. The dog is “encouraged” to course a field, to cast out in the direction the trainer indicates, to check back and to stay in handling range.

Once the dog has made game, he should come still as stone and point. This, again, is instinct refined by training. The dog wants to point but, once he has the birds located, he wants to creep in. And it is here that the skill and patience of the trainer, the heart and discipline of the dog, come together to create the thing that is the soul of quail hunting. Once on point, a dog *must* not move. Even if he sees the birds and sees they are moving away, he must resist the temptation to rush

and pin them before they get away. He must not try to get a better line while he waits for the shooter—and some of them can take their sweet time getting down from the wagon, adjusting the tweeds, loading the guns, and whatnot. The dog must not move in when the shooter walks past him. He must not move when the birds fly, or the hunters shoot or the birds fall. He must be “steady to wing and shot.” It is here that the dog does not do merely what he wants, in his blood, to do; but also what he has been trained to do and actually *does* not want to do (he’d *love* to rush those birds) except for duty. This is what makes you love a pointer.

I saw plenty of that, as the day wore on and the column of riders, wagons and heretical jeeps wound through the woods. The best moment came when a lemon-and-white dog made a wide sweep around my horse, then checked back to its handler not 20 yards from me, locked down on a point. The dog’s neck was extended and his head was aimed like an arrow in the direction of the birds. His long, slender tail was high and stretched straight as wire.

His handler raised his hat and everyone in the area pulled back on the reins. A hundred eyes were on that dog (his brace-mate, by this time, was backing beautifully), but you knew that was entirely immaterial to him. He had his job, and it didn’t have anything to do with the approval of strangers.

The handler dismounted. As did the dog’s owner. He carried a shotgun and followed the handler who beat the brush with a leather flushing strap. They walked past the



Sally Sullivan of Thomasville, Georgia, and Borderline Windsong, who found birds and showed enough style to take a trophy.

dog, but it did not blink or move. The whip slashed the grass, but the dog never flinched. Not even when the 15 birds flushed and the dog's owner fired the shotgun over his head, harmlessly. Never moved once. Not until the handler blew on a whistle. Then, instantly, without waiting for praise or thanks, the dog was back on the hunt, looking for more birds.

"Marvelous point, wasn't it," a handsome grey-haired woman wearing tweeds and riding a roan horse said to me.

"Yes, ma'am," I said. "It surely was."

"They're such lovely dogs. So much heart."

It was a small moment in the mosaic of the day. I'm not sure how that dog scored or, indeed how any one dog did in the trial. Three dogs took trophies, and I'm sure their owners were pleased. But none whose dogs did not win considered it a wasted day. The trial was less about the competition than the conviviality and the chance to watch some first-class dog work. The handlers, usually riding among themselves, kept a commentary that was worth listening to.

"That backing dog is going to creep, just watch."

"You better get up on that dog, Roscoe, before he puts his foot down."

"That'll be a false point, I just know."

"I got one, be coming out here next year, that is a meat machine if I ever saw one."

"What kind of point is *that*. Dog's head is about two inches off the *ground*. Must be pointing moles."

And there were good stories about the owners, usually told by other owners. My favorite was about the man who hosted the trial on his 15,000 acres, one year, and before the first dogs were on the ground, he made a short, apologetic speech. He was sorry to report, he said, that the hunting on his property had been abysmal that year. For some reason, in spite of all his best attempts at sound management, there just weren't very many birds. He hoped that scarcity wouldn't lead to a disappointing trial.

Well, the best bird dogs in the world, working his land for some eight hours, found over 100 coveys of quail. The next day, the man fired his dog handler.

For me, it was enough to ride through the piney woods on a good horse. To watch the flurry when somebody spotted a rattlesnake. To make a little light conversation with some of the other spectators. And, most of all, to catch a glimpse of some of the very best shooting dogs in the world, at work. It was their hour, after all, and they didn't let anyone down. ●

—GEOFFREY NORMAN



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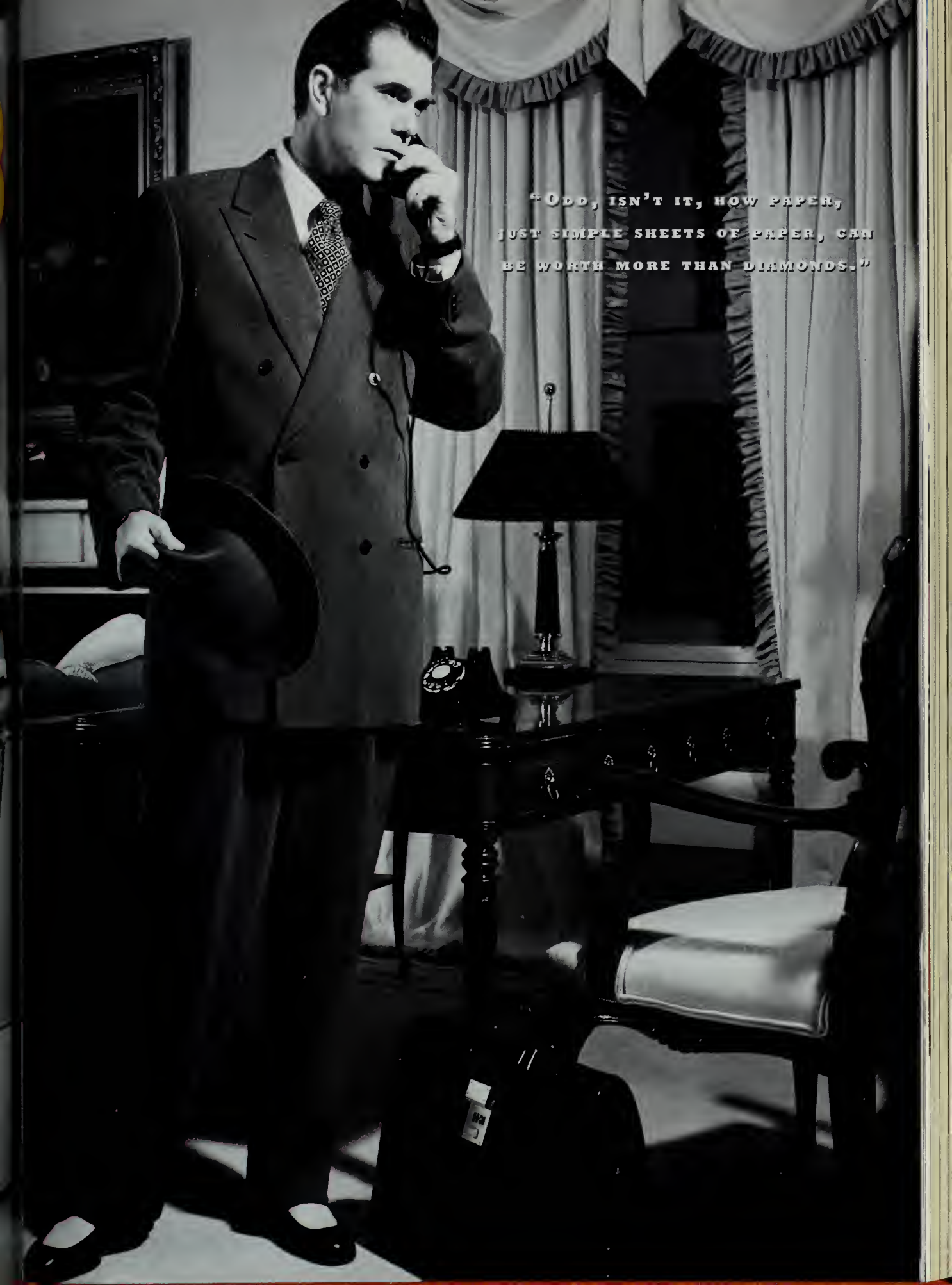
Don't Leave Home Without It.

INSIDE JOB

A Film By
Mark Grischke
Cinematography By
J. Michael Myers



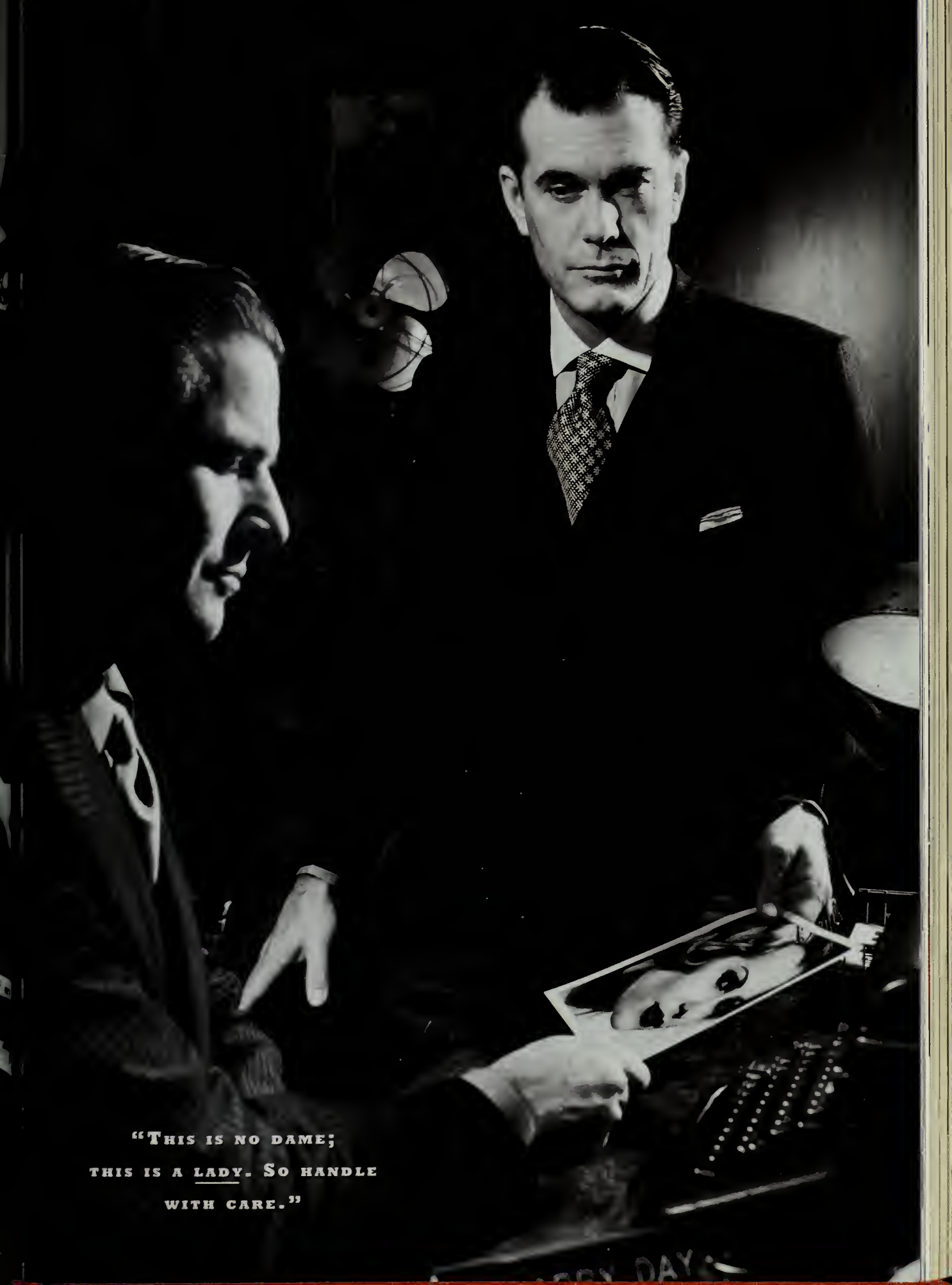
All prices approximate;
for stores, see last page.
His cotton suit, \$1,228,
shirt, \$195, and silk tie,
\$75, by Calvin Klein. Shoes
by Bally. \$245. Hat by
Worth & Worth. \$250.
Watch by Jaeger-LeCoultre.
\$2,490. Her cashmere
cardigan, \$320, T-shirt,
\$220, wool skirt, \$325, belt
and shoes by Calvin Klein.
Diamond bracelet and ring
by Van Cleef & Arpels.
Diamond Patek Philippe
watch at Fred Leighton.



"ODD, ISN'T IT, HOW PAPER,
JUST SIMPLE SHEETS OF PAPER, CAN
BE WORTH MORE THAN DIAMONDS."

This page: cotton top, \$99, and wool skirt, \$170, by Ralph by Ralph Lauren. Shoes by Manolo Blahnik. \$445. Hosiery by Wolford. \$29. Diamond earrings and bracelet by Van-Cleef & Arpels. Diamond brooch, and belt with Cartier diamond buckle at Fred Leighton. Bag by Crouch & Fitzgerald. \$195. *Opposite page, left:* cotton suit, \$995, shirt, \$75, and silk tie, \$78, by Oscar de la Renta Pour Homme. *Right:* wool suit, \$2,150, and cotton shirt, \$145, by Sulka. Silk tie by Garrick Anderson. \$90.





"THIS IS NO DAME;
THIS IS A LADY. SO HANDLE
WITH CARE."

ERRY DAY'S



**"IT'S ALL THERE: ENOUGH TO
START TEN COMPANIES—OR SINK
THEM. NOW YOU KNOW WHERE
I WANT THE MONEY...AND WHEN."**

to page
at \$2.00
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the peck
Paul Ste
the Edm
North &
Cather
the Sir J
\$2,000
Johnson,
the. Hal
Darcy, &
by Van



This page: wool/cotton suit, \$2,065, silk shirt, \$580, and tie, \$90, by Giorgio Armani. Hat by Worth & Worth. \$250. Opposite: his wool suit, \$1,500, and silk braces, \$100, by Edgar Pomeroy. Cotton shirt, \$73, silk tie, \$58, cufflinks, \$245, and cotton pocket square, \$10, by Paul Stuart. Shoes by Allen-Edmonds. \$235. Hat by Worth & Worth. \$250. Her leather coat by Marc Jacobs for Birger Christenson. \$2,000. Dress, \$640, and shoes, \$400, by Marc Jacobs. Hat by Lola Millinery. \$225. Diamond pin by Van Cleef & Arpels.

This page: silk chiffon pajama set by Oscar de la Renta. Shoes by Robert Clergerie for Oscar de la Renta. Diamond earrings, bracelet and ring by Cartier. *Opposite:* wool dinner jacket and pants, \$1,800, and silk tie and cummerbund, \$175, by Garriek Anderson. Cotton pique shirt by Sulka. \$195. Diamond, onyx and 18k-gold dress set by Cartier. Gold watch by Omega. \$4,500.



**"LOOK AT HER—A DIAMOND WITH
ONE DEADLY FLAW. DID SHE REALLY
THINK I WOULDN'T KNOW?"**



"Readiness is all," he was always so fond of saying. So I looked it up once, and, yeah, you guessed it—Shakespeare. Maybe that's why I always kept the gun in the top drawer. And maybe that's why the safety was always off.

So we'll both be keeping our appointments tonight. Mine's with a warm seat to Rio. And his? Well, his is with a cold slab of marble.

Maria Mayer dress by
Maria Mayer. \$565.
Diamond necklace, earrings
and brooch by Harry
Winslow. Hair and
makeup by Terri
Aronson for Cloutier.



STORE CREDITS!

Allen-Edmonds: Saks Fifth Avenue, New York; Bullock's, California; Macy's, New York and San Francisco; and all Nordstrom stores.

Bally: Bally stores, or 800-825-5030.

Calvin Klein: *His suit, shirt and tie*, select Barneys, Neiman Marcus and Calvin Klein stores. *Her cardigan*, all Nordstrom stores; *T-shirt*, all Neiman Marcus and Bloomingdale's stores; *both*, all Calvin Klein stores. *Skirt*, Calvin Klein, Palm Beach and Dallas; and Adele Kauff, Great Neck, N.Y.

Cartier: Cartier boutiques, or 800-CARTIER.

Crouch & Fitzgerald: Crouch & Fitzgerald, New York, 212-755-5888.

Edgar Pomeroy: *suit*, to order, Edgar Pomeroy, custom designed menswear by appointment, Atlanta, Ga., 404-365-0405.

Fred Leighton: Fred Leighton, New York, 212-288-1872.

Garrick Anderson: *accessories*, Scott Hill, Beverly Hills; *Britches* of Georgetown, Washington, D.C.; Bergdorf Goodman Men, New York; and all Barneys stores. *Suit*, to order, Garrick Anderson, New York.

Giorgio Armani: Giorgio Armani, New York, Chicago and Beverly Hills; and Bergdorf Goodman Men, New York.

Harry Winston: Harry Winston, New York and Beverly Hills.

Jaeger-LeCoultre: Cellini, New York; deBouille Diamond and Jewelry, Dallas; and Traditional Jewelers, Newport Beach, Calif.

Lola Millinery: Lola Millinery,

New York; Bergdorf Goodman, New York; and Fred Segal Hats, Santa Monica.

Manolo Blahnik: Manolo Blahnik,



New York; and Bob Ellis, Atlanta.

Maria Snyder: *dress*, to order, Maria Snyder, New York.

Marc Jacobs: *leather coat*, by special order, Birger Christenson, New York, 212-947-7910; *dress and shoes*, Neiman Marcus, Beverly Hills; and Bergdorf Goodman, New York. *Jacket*, Bergdorf Goodman, New York; Saks Fifth Avenue, New York and San Francisco; and Ultimo, Chicago; *skirt*, Saks Fifth Avenue, New York and San Francisco; and Bloomingdale's, New York.

Omega: select Zales, Mayor's and Ben Bridge stores.

Oscar de la Renta: *pajama set*, to order, Oscar de la Renta, New York.

Oscar de la Renta Pour Homme: select Saks Fifth Avenue stores.

Paul Stuart: Paul Stuart Madison Avenue, New York, 800-678-8278.

Ralph by Ralph Lauren: Bloomingdale's, New York; *skirt* also at Polo/Ralph Lauren, New York and Pittsburgh.

Sulka: Sulka, New York, Chicago, Beverly Hills, and San Francisco.

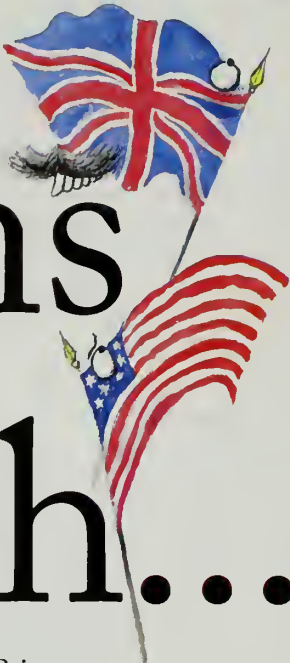
Van Cleef & Arpels: Van Cleef & Arpels, New York, Palm Beach, Beverly Hills and Honolulu, or call 800-VCA-5797.

Wolford Hosiery: Bergdorf Goodman, New York; select Bloomingdale's and Saks Fifth Avenue stores; or call 800-WOLFORD.

Worth & Worth: Worth & Worth, New York, Boston and Chicago, 800-HAT-SHOP; and Barneys, New York, Chicago and Beverly Hills.

Inside Job was filmed on location at The Waldorf Towers, a uniquely luxurious "hotel within a hotel" combining privacy and personalized service, with convenient access to the adjoining Waldorf-Astoria. Accommodations include executive-style oversized rooms and one- to four-bedroom suites. All are individually decorated, with marble baths; many have dining rooms, full kitchens and maid's quarters. The Towers features a separate entrance and private elevators, plus concierge, butler and trained staff. Rates from \$375 per night for a deluxe guest room; long-term leases available. The Waldorf Towers, 100 East 50th Street, New York, N.Y. 10022. For reservations, call 800-WALDORF.

Why Americans FEEL INFERIOR to the British...



I had scrubbed my face with a lurid chunk of roast beef just that morning. Fat and blood clots hid in the week-old beard. I wore a black-armspitted uniform from my 250-pound garage mechanic—male pregnancy clothing would've fit better on me. Lengths of Venetian blind cord held it all together at the belt line. I looked like a sucking chest wound. Worse yet, I hadn't made any money.

opportunity to patronize a Brit.

That's one example—slight and harmless enough—of our inbred Anglophilia: the love/fear reflex which pertains whenever American men and women come in contact with a stiff upper lip. There are pathetic instances as well. During my stint as Kellett Fellow at Cambridge University in England, I came to know another American fellowship student—let us call him Jonah T. Jonah was a precocious and erudite 18th-century historian. He was also Jewish, very much from Brooklyn and, well, unprepossessing when it came to facial equipment. But one month into the Michaelmas term Jonah caught on: you look much better with an English accent.

Sure, any American at Cambridge who could pull it

...and WHY WE SHOULDN'T

This was 1981 or so. I had been doing undercover research for an article on panhandlers. My one-line sales pitch was, I thought, particularly inspired. "I'm a diabetic, Mac. Need some loose change for insulin or they'll amputate my left leg." *Left leg*, mind you. Good touch. Specificity is the friend of pathos. Still—unless contempt counts as legal tender—all I had to show for it was one devalued Canadian dime. And then I got this nifty idea.

Try an English accent.

"Ahem. Say, old chap—I've run into a spot of rum luck. Could you spare the odd shilling?"

In less than 90 minutes, I made \$11.05. No American—be he rushed or ungenerous or just plain broke—can resist the

off was tempted to lengthen his a's and play Brit for the evening. I often did. Americans (in 1963) were confronted over and over again about our bloody awful treatment of the Negro population. (Having spent a month in London where every other rental was "Europeans, please," I had little patience with Anglo-righteousness.) But for Jonah T. protective coloring became his only coloring. He got stuck in the persona of an ersatz Englishman. Jonah gave up history so he could be British full-time. He went native in reverse.

It wasn't pleasant to observe. Jonah and I met for lunch in New York a year after our return. By that time he had upgraded his accent from standard BBC to the royal absolute (where you pronounce "house" as "hice"). Being British had

BY D. KEITH MANO

ILLUSTRATIONS BY RONALD SEARLE

relaxed him to the edge of inanition. Each eye was at half-lid. Instead of that Brooklyn jive I remembered—aggressive and fast as an automatic staple gun—Jonah let his royal drawl do the honors for him. And it worked. It always will in America. Our waiter gave him the check. And like the aristocrat he now thought he was, Jonah borrowed ten bucks from me.

This, I grant, is a sad, pathological case. But no American confronted by a Brit is exempt from that deference

which borders on servility. And the Brits know it. They toy with us. They take our employment and make us seem crass by comparison in the eyes of our women. Brit-speak is hypnotic surface noise.

My first wife (Yes, I married a Brit. I didn't say I was exempt, did I?), my first wife could never get a New York cabbie to follow her directions—he invariably heard just accent, not substance. The amplitude and frequency of high-class British speech are wired into American brain matter just where our gland for admiration lies. There is a purely mechanical reason or two.

First. Brits pronounce their English on the vowel. Americans speak on the consonant. Which is to say, your British counterpart can hold a word longer, can sing it, can impart wholly meretricious significance should he so desire. Listen to that famous Shakespearean tenor Sir John Gielgud: "Myyyy mi-uhhh-stress IIIIIIs ahhre nohthing li-i-like the suhn." Now imagine Al Pacino performing that same sonnet. What do you note right off? Yes, that you'd rather go to bed with Pacino's mistress. The Gielgud woman is just a poetic conceit. When hearing Shakespeare, unfortunately, we expect such arias, and, believe me, even the lowliest Brit can sing.

There are practical consequences to this. In a debate with your British friend, he will invariably score big on the operative emphases. You say, "Yeah, but—" and sound dull or uncertain. He will say, "Yeh-ess bahht," and sound *portentous*. His English, understand, is rather like Chinese—meaning and force are dependent on inflection. Moreover, those elongated vowels have given him extra time to marshal an otherwise flaccid argument.

Don't underestimate the effect of Brit-speak on world history. Remember King Henry V at Agincourt, remember Churchill, remember the 1967 war—won less by Israeli strategy than by Abba Eban's magisterial English accent.

Second. The British—because they leave so much space between words and words—tend to enunciate well. We, given our consonantal drift, pronounce in comprehensible locations like "Whaddya doo?" Further more we associate clear speech and the stress implied by it with a) anger or b) firmness or c) angry firmness. When little Bill gets irksome, his American dad will say, "Go. To



Your Room. William.

Smith." Thus, for us, being spoken at by a Brit is like disciplinary action: you are bad and five years old again. By contrast our own diction is so imprecise that we say "Read my lips," before making a point. Americans are eloquent only to the deaf.

Third. With firmness we associate high morality. And high morality, for us, is connected to repression—the self-sacrificing resolve, say, which won The Battle of Britain. Americans are awed by morality (and glad that someone is still doing it). But moral folk stand a cu

But, you say, surely they didn't have to think up British humor for Stateside export alone. True. Other Brits—Cockney and Liverpudlian and your working bloke in general—relish, too, the delicate stand-off between repression and slapstick collapse. After all, they (far more than any American) have endured a lifetime of condescension from *Homo Britannicus Repressus*. At least our inferiority complex doesn't have class implications as well. Cockney and Liverpudlian will put an arm around your shoulder in the pub and call you "Bill." They are also, as you are, completely unintelligible. And they

I was quite popular at Cambridge. That alone should've made me suspicious. (Heck, I chewed tobacco, wore clip-on ascots and said "Goethe" as if it were "Gothy.") Still, one chap or another would boost me over the rotating spikes and into college after curfew. One chap or another rescued me when I went for a punt and got stuck on my pole mid-river like St. Simeon Stylites. They had me in and again to tea.

So, next time a Brit scolds you in his understated, sub-parental way—well, let it go. He's jealous of all the channels you can get on cable. Either that or he just bought a dead parrot from this other Brit, and is too damn repressed to go get his money back. ●

D. KEITH MANO *is a writer living in New York City.*



IN THE DEEP POOLS AND HEAVY
WATER OF THE DEAN RIVER, SOME OF
THE WORLD'S FINEST GAMEFISH
ARE READY TO PLAY HARD TO GET

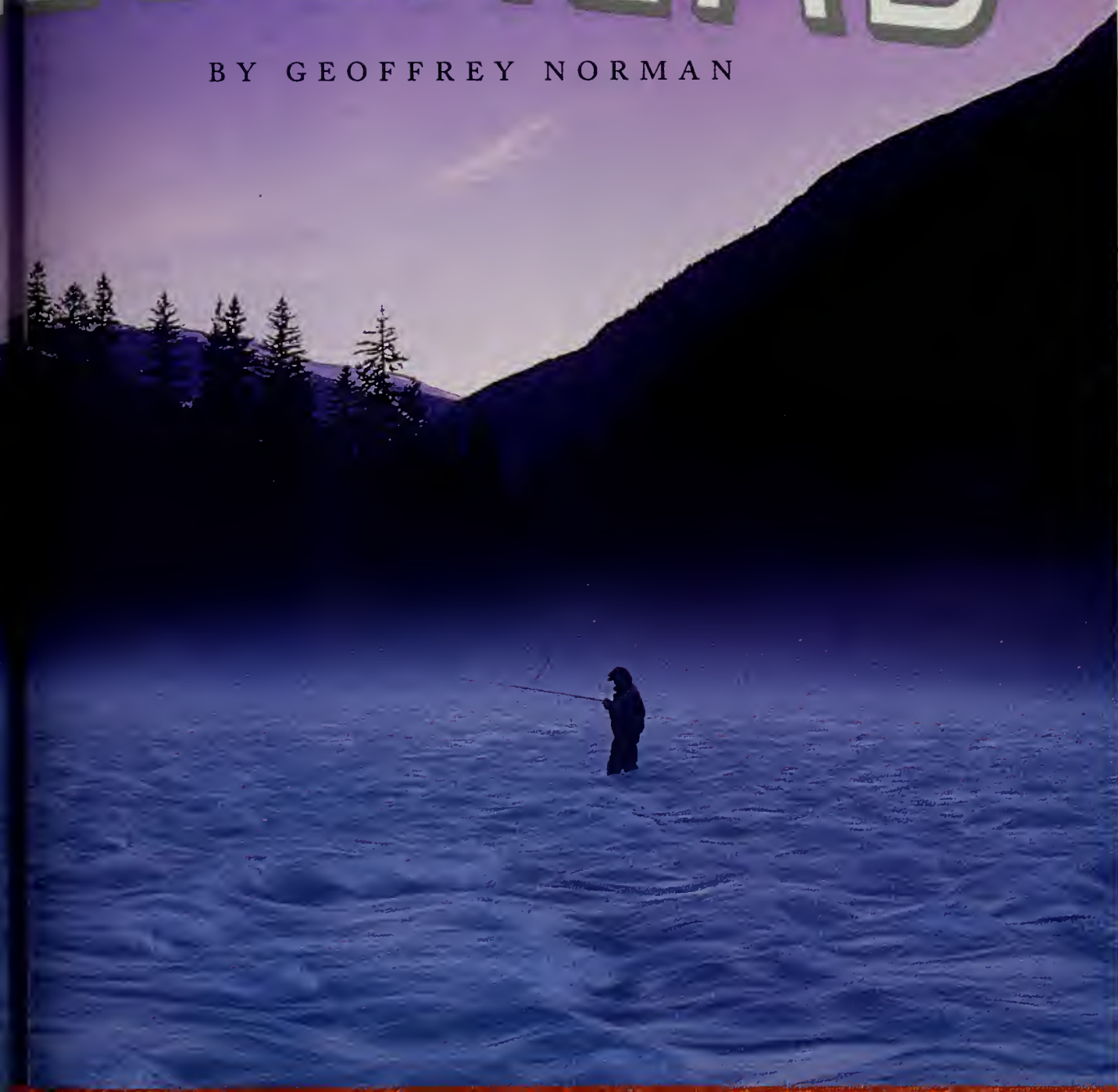
Photographs by Andy Anderson

ST



HEELHEAD

BY GEOFFREY NORMAN



Darryl Wayne Hodson built this camp and, if you are one of those anglers who has given himself to the sport the way converts give themselves to the Church, then Hodson's camp on the Dean River in British Columbia is where you want to be in mid-September. A trip to the Dean is a pilgrimage, almost, and the people who come here are virtually all repeaters. They have been coming, year after year, during "their week," some of them for as long as the camp has been open. Coming back for 20 years now, to fish for steelhead on the Dean. If, for some reason (business failure, say, or a heart transplant) you cannot make it during "your week," then you arrange for someone else to take your place. You don't cancel, because if you do, you lose "your week." Perhaps forever. In which case, you might as well bag the heart transplant and die, because once you have fished the Dean, life without steelhead wouldn't be worth living.



The cabins at Hodson Camp, on the Dean River, are small, tidy and dwarfed by huge conifers.

The steelhead is a migratory rainbow trout, a fish that leaves the river where it was born and spends several months in the big water. The months and miles—one tagged fish swam more than 2,200 miles to spawn in its parent stream—make the steelhead very strong, and the fight upstream in the big, surging rivers where it goes to spawn makes it tough.

Before I made my first trip to the Dean, I spoke to John Merwin, who is a neighbor and one of America's finest angling writers. "You know," Merwin said, "how most fish, when you hook up, act like they are startled? Or alarmed. Or frightened. Something like that?"

"Yes."

"Well those fish, those Dean River steelhead, seem mad. I can't describe it any other way. You'll see. Those are the toughest fish in the world."

You start out at Vancouver and change to a smaller plane in a town called Bella Coola. This flight ends on an insignificant and badly surfaced little strip next to Kim-squit Bay, one of the innumerable estuaries along the

coast. There is no hangar, no terminal. The plane had brought four anglers in and was taking a few more out. We loaded our gear on trucks and started for the river, where we climbed into long, gracefully tapered boats and started upstream for camp.

This valley was logged once, but some of the original trees remain along the river bank. Big, imposing, daunting trees. Cedar, spruce, and fir. Straight and thick, and more than 100 feet tall. There is a solemn, grave, and haunting quality to those trees and to the forests that are made up of them.

The mountains that define the valley of the Dean are equally imposing. Sheer rock, severely carved by glaciers which you can see, here and there, as deep blue patches in the deeper folds of the mountains.

At two in the afternoon, after eating lunch and filling out the paperwork for a license, it is time to go fishing. There are two boats leaving the camp, each carrying three anglers and a guide. One guide is Bob Hall. The other is his wife Jill. She is the daughter of Darryl Hodson. She is in her young 20s. She is pretty without having to work at it, and she has a smile that could melt granite. I am in her boat.

Jill runs downstream a mile or so, and at a long, rocky point, she beaches the boat and says to me, "You can start at this pool."

I climb out, rig a fly that she says looks good—a feathery purple leech—and begin stripping line.

"Straight across," she says, "then mend your line and let it quarter downstream. Strip, then pick up and shoot a little more line and do the same thing again. Once you have as much line out as you can handle, take a step or two downstream and start again. You want to cover as much of the pool as possible."

"Okay."

I shoot a little more line on my next cast. She watches. "Not quite so much downstream. Try to get it straight across."

I do what she tells me, or try to. I imagine that any angler would. You couldn't stand to disappoint her.

All afternoon I fished. Stopped casting only to change flies, check for wind knots, or move to another pool. I never had a strike. A good day on the Dean is four fish. One fish is just fine. You can live with no fish and no strikes. If you can't, you should leave steelheading alone.

While I worked one pool, Jill stood at my elbow, watching the water and talking cheerfully while I cast. And cast again.

We talked about the fishing a little. And, then, about her family.

Her father, she said, had built the camp before she was born. He'd been guiding at the only other camp on the river, Stuart's, which is just upstream a little. Stuart's was new then—the river had just opened up—and was doing a robust business. They needed a new guide.

"So they hired an inexperienced man," Jill says, "and paid him \$800 for the season. My Dad had been there for a couple of years,

and he was making only \$500. So he protested. The man who owned the camp was my mother's cousin. And my mother was cooking there. But he said, 'A deal is a deal. Five hundred dollars.'

"My Dad said, 'Then I'll quit and start my own camp.'

"That's fine,' Stuart said, 'you do what you have to. A

little competition will probably be good for both of us.' In a way, he was doing my Dad a favor. He was too ambitious to just be a guide for someone else. He had so much energy."

Which came in handy because he and his wife, Nancy, had no money. They had to build the camp, attract

clients, and hire guides. Darryl also had to learn how to fly a float plane so he could supply the camp. And, they were raising a family.

A TRIP TO THE DEAN IS A PILGRIMAGE,
ALMOST, AND THE PEOPLE WHO COME
HERE ARE VIRTUALLY ALL REPEATERS.

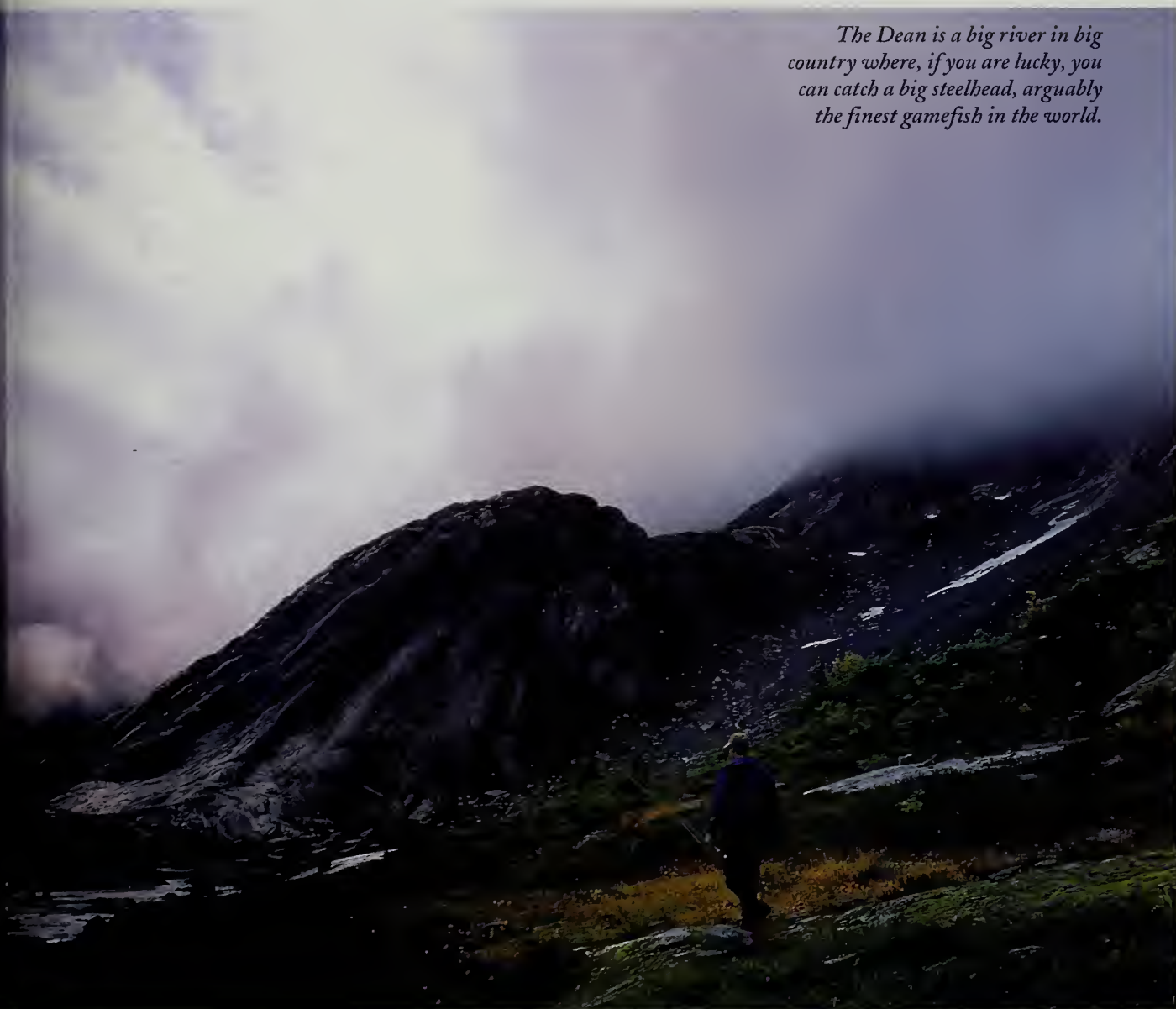
Jill has a brother and a sister.

"How in the world did they manage?" I ask, shooting another cast.

"I don't know," Jill laughs. "I wasn't around for that."

When the sun dropped behind a long line of cold, blue mountains, we quit. It was a clear evening, with a

The Dean is a big river in big country where, if you are lucky, you can catch a big steelhead, arguably the finest gamefish in the world.



moon. The snow on the mountains looked white as cotton, and the blue glacier ice gleamed like sapphires. There was a chill, and I built a fire in the woodstove before I got into bed. I went to sleep quickly. Lulled by the sound of the river and the remembered rhythm of casting and casting again.

The next day, it rained. One of the other anglers caught a fish early in the morning. From where I was, I could see the fish jump several times. It appeared as a flash of silver over the lead-colored surface of the water, and there was something undeniably dramatic and powerful about the fish. Something wild that, even from 200 yards away, got my blood pumping and raised my sodden spirits.

I went back to casting. Making sure my loops were tight and my mends were clean.

While I worked a small pool, after lunch, Jill talked brightly. Trying, I suppose, to keep my spirits up. It was unnecessary, but considerate.

She had spent her summers at the camp, on the river, she said, and she loved it. "It was the greatest childhood."

When the children grew older, they began to take on some responsibilities. Jill started out helping her mother, in the kitchen, but what she liked to do was...fish.

"Dad taught me. And one year, when we were temporarily short of a guide for some reason, he told me I

had to take clients out. I was terrified, but he told me not to worry, that I was good and I could do it."

She became a guide, and met her husband on the river.

"Bob was guiding at Stuart's, and after we had taken our clients in at the end of the day, we would meet back out on the river and go fishing. When we had a day off, Dad would take us over to the Kitlope in the plane. He

THE FISH TURNED INSTANTLY AND RAN POWER IN THAT FIRST SURGE THAT I REACTED

was building a new camp over there, and was learning the country. He was really excited about it. To him, it was sort of the next frontier.

"So that's how Bob and I dated. Fishing on the Dean after work, or flying into the Kitlope with my Dad on our days off."

I had never, I thought, had a conversation quite like this one with a fishing guide. But I wouldn't have minded if it had gone on all afternoon. But Jill had to check on her other two clients. I moved to another pool and began resolutely casting. And then casting again.

Late in the afternoon, when I had almost worked myself into a trance, I got my first strike. Surprised almost to the point of disbelief, I raised the rod to set the hook.

The fish turned instantly and ran. There was so much speed and so much power in that first surge that I reacted like a spectator instead of a player. I raised my arm, but

Jill Hudson stretches the tape on a hen steelhead. At 30 inches, this is a nice fish, not a trophy. But, like all Dean River steelheads, it fought like one.



he tension in the long Orvis graphite rod didn't restrain the fish any more than a willow switch, and the line peeled off the reel, followed by the backing, so fast and so smoothly that my first entirely clear thought was that if I kept on standing there admiring the magnificence of the fish, it was going to spool me.

So I ran down the rock and gravel bank, in my waders,

were salmon and lots of them. Some of the rivers probably held steelhead, but they were still exploring. What he could promise was big, wild, remote country. Which sounded good to me.

We left the Dean, in the morning, in his two-seater Robinson 22 helicopter. Flew down the Dean and then up another river.

"We'll see some bears on this river," Dan's voice came through my headset. I stepped on the push-to-talk switch and said, "Grizzlies?"

"That's right. This river is full of salmon. They've come down to feed."

A minute later, he said, "There's a griz."

We saw a dozen bears on the banks of that river. In ten minutes. One large boar looked up at us with a ten-pound salmon flopping in its mouth.

THERE WAS SO MUCH SPEED AND SO MUCH LIKE A SPECTATOR INSTEAD OF A PLAYER.

with the rod held over my head, figuring that if I fell, I would certainly break the rod and probably knock a couple of my teeth out. An acceptable risk for a fish like that.

Just before it reached the heavy water, the fish jumped. A big jump with its heavy body bent like a strung bow. There was a huge belly in the line, and I reeled furiously to bring the line tight. The fish jumped again when the line was taut, and I moved to throw a little slack so the leaping fish would not snap the leader.

I gained a little line. The fish ran again. And jumped again.

Jill had caught up with me by now.

"Keep him out of the heavy water," she said.

I said I'd do what I could.

It was about 20 minutes, I suppose, from the time that fish startled me out of my damp, listless state until Jill slipped a hand under its belly and held it out of the water for me to admire. It was easily the strongest fish that I have ever caught. Strong from cruising the ocean and then from fighting its way up river. Far stronger than the salmon that swim the same ocean and fight their way up the same rivers but are coming home to die and so, perhaps, figure at some point, "What the hell." The steelhead is no fatalist. It may be coming home to spawn but dying is not on its agenda. With luck, it will go back to the ocean another three or four times.

I imagined I had been able to feel the force of that migratory urge in my rod hand.

The fish, Jill said, was 36 inches. Old-time Dean River anglers come back hoping for their 40-inch fish. I felt fortunate and humble. Felt a kind of glow in spite of the cold rain and the steady wind. I watched Jill release the fish and thanked her.

I now believed everything I'd ever read or been told about steelhead, and I would have been content to stand hip-deep in any pool on the Dean, casting and casting again, until the week was over and it was time to go home. But I got a better offer.

Dan Hodson, Darryl's son, asked if I would like to spend a couple of days in the Kitlope, the place his father had thought of as the next frontier.

He couldn't promise any steelhead, Dan said. There



A freshly caught Coho salmon from one of the many rivers in the Kitlope—three-quarters of a million acres and only one fishing camp.

"Do we fish this river?" I said.

"You can," he said. "If you want to."

I told him I wanted to.

"Okay," he said. "We'll float it in a couple of days."

We flew up a long mountain pass and across a wide, fractured glacier and down into the next valley. "Couple of goats," Dan said. "Just off to the right, in that little meadow." I looked and saw the shaggy white goats, grazing. Dan Hodson flew in an effortless way, and he didn't seem to miss anything. He guided hunters in these mountains, after fishing season, and you knew right away that he was good at it. Solid and competent. Very competent.

A few minutes later we were down in the valley, just above a strong, green river, coming into a small camp. The only camp in the Kitlope wilderness which, at more



End of the day, back at camp. Cleaning a salmon to be cooked over a hot aspenwood fire while the sun sets.

than three-quarters of a million acres, is the largest remaining intact coastal temperate watershed in the world. Darryl Hodson, who was passionate about everything, was in love with this country. He was building this camp the summer he was killed.

It is two or three small, clean cabins with woodstoves and outhouses, a main building where Dan's wife D'Arcy and their three young boys live and where everyone eats, and a tent where Darryl's brother, Randy, lives. During the season, he works for Dan as a guide. He is building a cabin so he can move out of the tent.

Dan leaves me and my gear and flies back to the Dean. After I have moved my gear into the cabin, I play with the boys. An hour or so later, when Dan returns in the helicopter, we fly off into the Kitlope.

In three days, we went to half a dozen different rivers. Some were small and slow, shaded by trees that grew tight and close right down to the bank. There was something serene and restful about them.

There were also big rivers with lots of water where you couldn't wade more than a few feet and then had to brace yourself against the strong current while you would cast and retrieve. I had a strong strike in one of those rivers from a fish that ran me down to the backing, and Dan said it could have been a steelhead. It was the only time I thought

I might have been into one. But all the rivers were full of salmon.

There was a pool in one of those rivers that curled around the base of a tall—maybe five- or six-hundred-foot—rock face that looked like the kind of thing climbers dream about. That cliff caught the breezes that moved down the valley of the river, forcing them up in a column that the eagles rode. I counted 18 eagles soaring on those thermals. Now and then, one of them would come down to the river to gorge. There were dead, dying, exhausted, and spent salmon everywhere. The river smelled of them. So strongly that you imagined the stink would get in your waders and never come out. But, oddly, strong as it was, the smell was not repellent.

"Bears think it is perfume," Dan said. "They'll find a nasty old salmon, up on the beach, all full of maggots, and they'll roll around in it to get it all over their bodies."

"Sounds exactly like my bird dog," I said.

We didn't see any bears on that river. Just tracks and salmon that they had taken one bite from before moving on. Perhaps to find another that was not so fresh.

We floated one river in a rubber raft, stopping at the likely pools where we caught coho salmon and small cutthroat trout. Some of the coho were fresh with bright silver sides, and some had been in the river long enough for their bodies to turn dark and their jaws to develop the pronounced, brutal hook that makes you think of an old boxer who has taken

THE STEELHEAD IS NO FATALIST. IT

MAY BE COMING HOME TO SPAWN,

BUT DYING IS NOT ON ITS AGENDA.



Dan Hodson and his wife D'Arcy run the Kitlope camp. He flies the chopper and she cooks. Sons Everett, Benjamin and Jonathan are studying to be guides.

too many to the nose.

I floated that river with Randy Hodson, who talked to me about his brother.

"Darryl was really excited about this place," he said. "He loved the Dean and steelhead but it was getting...oh, I guess you'd call it *predictable*. This was new, and there was so much to it, that you'd never learn it all. He was building this camp. The idea was that he'd let Nancy and the kids run the other place, over on the Dean, while he'd concentrate on running this one. Bring in people who weren't hung up on just catching steelhead and were interested in doing a little exploring. You know. Maybe they'd catch a steelhead. Probably they'd catch salmon. Could be, they wouldn't catch anything. But they would sure see some country. It would be an adventure."

I didn't ask, but he told me how Darryl was killed.

He'd just bought a new chopper. A four-seater Robinson 44, which he believed he would need to move people efficiently around the Kitlope. He'd been flying all day, and he had just landed on the smooth gravel shoreline of a river to pick up an angler he'd dropped off earlier. He cut the engine but before the rotor had stopped moving, he reached out of the bubble, maybe to clear something from the glass.

The blade caught him in the head.

"It was the last week of the season. The Mounties went over to the other camp to tell everybody. And the people up at Stuart's came down to help out. Nobody could believe it. Not Darryl."

The camp on the Dean opened the next year, but the camp in the Kitlope was closed while Dan learned to fly a

chopper. Last season, with only a two-seater chopper, Dan Hodson brought a few people into the Kitlope just to get a feel for how the camp will run. This summer he will have a four-seater chopper, and he plans to be running full camps.

"There is a lot of Darryl in him," Randy says.

We have killed one of the fresh coho, and when we are back at the camp, we build a fire of aspen logs. While we

wait for it to burn down to coals, we sip whiskey poured over ice from the glacier where Dan landed earlier in the day. The ice pops as it melts, and the salmon sizzles on the grill as its stored fat drips onto the hot aspen coals.

It is easy to understand what Darryl Hodson saw, and what his son continues to see in this place. It would be nice if they found some steelhead, but it isn't necessary. In fact, it is a place that stands pretty much on its own. On my last day, when we floated the grizzly river, I came within 50 or 60 feet of a 600-pound bear grizzly before it winded me and ducked into the willows.

It was neat but it wasn't the high point. This place is too good for that. ●



A brace of Kitlope salmon. It is possible—and at times, easy—to catch so many fish like these that you lose count. Which is fitting. Because as good as the fishing is, the Kitlope is about a lot more than fishing.

The season on the Kitlope is August 1 through September 30. A five-day trip, which includes transportation by chartered plain from Vancouver, fishing

license, all meals, and goods and services tax is \$3,297 per person. These trips are available and memorable. The Dean is generally fully booked. If you can book a week, the price is \$3,462.

For information, contact Hodson & Sons, P.O. Box 397, Bella Coola, British Columbia V0T 1C0. Phone: 604-982-2322; fax: 604-982-2304.

*The story the
International
Olympic Committee
tried to suppress!*

Drinking And Games

BY DON VIVANT

In the 1935 World Championship chess match, the defending champion, Alexander Alekhine, built up a big lead in games. He was ahead four-to-one, then seven-to-five. But then he got so confident that he began entering into the playing room "under the influence of alcohol," as various observers reported. Gradually his lead in games began to vanish, and he lost the match. Two years later, in the return match, Alekhine drank only milk, and he won back the championship. There's a moral here somewhere.

But what *is* the moral? That you're not supposed to relax when you're playing chess? That whom The Gods wish to punish they first make arrogant? That two years of milk-drinking will focus the old motivation remarkably? Surely the moral is not that drinking and games don't mix?

On the contrary, drinking and games mix *marvelously*—nearly as well as gin and vermouth. In fact, when

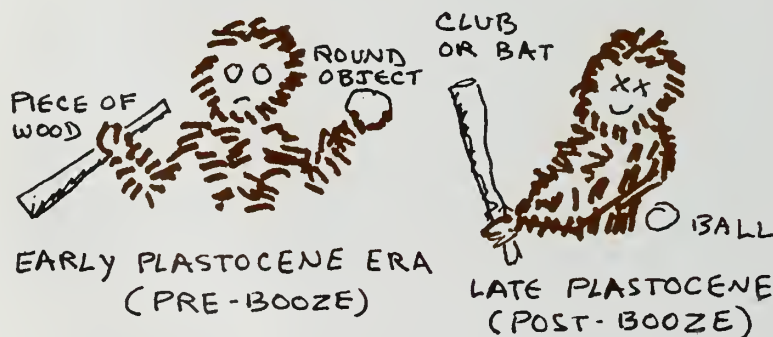
games were first invented in the Early Plastocene Era, when drinking *hadn't* yet been invented, none of the participants had any fun playing them, so they hardly knew what games were for. In the Late Plastocene Era, when drinking *had* been invented, the point of games (fun) began to evolve. (Please refer to Figure One.)

Similarly, poker as it originated in the Orient was inscrutable until it was first played in the United States in the nineteenth century. Western bar rooms, dance halls and gun fights were required to keep the game going into this century when it finally became apparent that poker was not a game of

skill but simply a game of chance with financial leverage and that the only objective of the game was to lose as little money as possible while still knocking back drinks convivially.

In this regard, poker is entirely different from bridge, which requires skill even to *play*, much less *win*. Bidding

FIGURE ONE:
COEVOLUTION OF DRINKING AND GAMES



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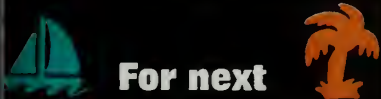
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is a guilt-instilling aspect of the game ("If I didn't overbid, then I'm sure I underbid!"), much assuaged by drink. But the actual playing of a hand under the influence, if you're trying to keep track of all the suits, card-counting and so on, can get to be scary. (Figure Two.)

Certain games seem to call for specific drinks. Pool-playing, for instance, seems to go with beer drinking. Backgammon is best enjoyed with Dubonnet-on-the-rocks, adding gin of course as the doubling cube cries out for it. With other games, one's not so sure. It's hard to know what to drink with gin-rummy, for instance, or even why the game's named so alcoholically. Monopoly benefits most from the milk of human kindness, but I guess brandy and nutmeg can be added to that with profit. Most people playing slapjack are too young to drink anyway. As far as Clue is concerned, it seems that with spirits of any sort, Colonel Mustard is liable to career back and forth between the Library and the Conservatory, ogling Miss Scarlet, before finally lurching into the Kitchen, tripping on the Rope, with the Candelabra in one hand and the Wrench in the other, mumbling unprovable accusations of murder against Professor Plum, based mostly on the Colonel's well-known prejudice against portly academics with liberal tendencies.

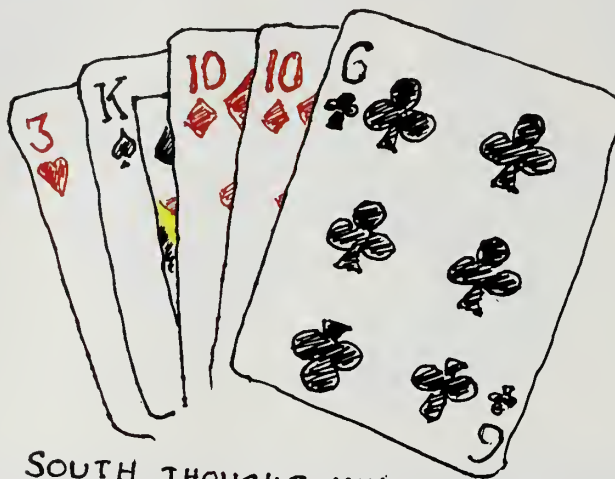
Croquet and either gin-and-tonic or vodka-tonic make an admiral—I mean admirable—Commander

FIGURE THREE:
TIPSY CROQUET



BALL APPEARS TOO LARGE TO GO THROUGH CENTER WICKET, BUT THAT'S BECAUSE IT'S SEEN PARTIALLY DOUBLE.

FIGURE TWO:
TIPSY CARD COUNTING



SOUTH THOUGHT HE'D PLAYED THE TEN OF DIAMONDS, THEN FOUND TWO MORE STILL IN HIS HAND!

so alcoholically. Monopoly benefits most from the milk of human kindness, but I guess brandy and nutmeg can be added to that with profit. Most people playing slapjack are too young to drink anyway. As far as Clue is concerned, it seems that with spirits of any sort, Colonel Mustard is liable to career back and forth between the Library and the Conservatory, ogling Miss Scarlet, before finally lurching into the Kitchen, tripping on the Rope, with the Candelabra in one hand and the Wrench in the other, mumbling unprovable accusations of murder against Professor Plum, based mostly on the Colonel's well-known prejudice against portly academics with liberal tendencies.

the center of the forehead, eventually developing abnormalities. (As shown in Figure Four.) This game is often played in white duck trousers and a long-sleeved, button-down-collar Brooks Bros. white shirt because the grass stains are very useful in the morning in figuring out what in hell you were doing the night before.

The very best game ever invented to play loaded is sardines. You remember sardines. All you need is a big house, a big houseparty, and a lot to drink. Lights out all over. One person sneaks away and hides. One by one the others leave and try to find him. When they do find him, they don't call out or anything, but just quietly get into the closet with him. Gradually the others find you and crawl in too. Eventually there is only one person left—very spooky feeling—wandering the house searching. Sardine proves absolutely that there is no conflict whatsoever between games and drinking. There is no way possibly to lose at sardines. All you have to do is control your giggling. •

FIGURE FOUR



INTELLECTUAL
EGGHEAD
(NORMAL)
VOTED FOR
ADLAI STEVENSON
TWICE.



UNINTELLECTUAL
EGGHEAD
(ABNORMAL)
PLAYED NIGHT-
TIME FRISBEE
REPEATEDLY.

Don Vivant

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**How an AMEX exec
won the West
(and shared it with
exchange officials
from all over
the world)**

**BY NEAL SANTELMANN
ILLUSTRATIONS BY
JOSEPH SALINA**

A radiant Monday last September. The market was up, commodities were flat, and Howard Baker, senior vice president for derivative securities for the American Stock Exchange, was covered with dust. From the top of his cowboy hat to the bottom of his big leather boots.

"Nah, I'm not going to take a shower," he drawled, faux-Western, beaming contentment through sand-coated shades as he eased his horse past the Cly Butte just inside the Monument Valley. "*Real* cowboys never take showers."

SECURITIES



Some talk, considering that Baker is more at home in the grey canyons of Manhattan than beneath the red-rock rims of Navajo country; more sure in the back of a cab, or an aisle seat on the Long Island Railroad, than on top of a horse. And yet, Baker—a big man, wide in the saddle—certainly seemed more comfortable than the two dozen other dudes he'd cajoled out to Arizona for a week of cowboys and Indians. The eighth herd of foreigners and financial types he'd driven through the

West in the past decade.

Like Asko Schrey, president of the Finnish Options Market, scared to death of horses. Peter Thayer, president of the Gateway Index Plus Fund, sporting a shiny sheriff's badge, black hat, and a gee-whiz demeanor. Bengt Ryden, president of the Stockholm Stock Exchange, quiet in the saddle behind a sheriff's badge of his own. Manuel Andrada, marketing chief for the Spanish Futures and Options Exchange, one of the few who hadn't dressed the part.

SLICKERS



Two assistants to the head of the Austrian Futures and Options Exchange, whose boss had joined Baker two years before. And David Marcus, general counsel at Lehman Bros., whose own unique brand of horsemanship had already resulted in a hoof-shaped bruise one of the Austrians would never forget.

Baker's had plenty of others over the years. Senior officials from markets in Lisbon and Tel Aviv, Amsterdam and Tokyo, Paris and London, to say nothing of all the cowboy-wannabes he's found in Chicago and New York. Two years ago, the president of the Belgian Futures and Options Exchange even tied the knot on one of Baker's rides, to the strains of a mariachi band under a star-choked Arizona sky.

So how does this nice Jewish boy from the Big Apple get all those securities slickers out to the dry and dusty American West? Certainly business has something to do with it. But Baker's Western roots run deep. All the way back to the generous aunt who indulged a young boy's fantasy, fixing him up in every Hopalong Cassidy outfit and accessory she could find. "I even had the stick pony," recalls the 52-year-old. "My folks took a picture of me, and I entered it in a Hopalong Cassidy look-alike contest at McCreery's department store. I came in third place. We went to this nice luncheon. Hoppy came—I loved it."

There were riding lessons on Staten Island, Western *Classic Comics*, and enough bad movies to keep his fascination alive. But not much else until 1974, when, as then-arbitration director for the AMEX, Baker had the good fortune to work a case in Phoenix. He bunked in Scottsdale and toured the state with an old friend, a Long Island peace officer who'd recently relocated. Cowboy hats, hitching posts, Indian reservations, dust storms, livestock, "Howdy, boys"...the New Yorker couldn't get enough.

Soon Baker was spending most of his vacation time in Arizona, with his wife Carol, and often meeting up with Murray Wachter, a friend and garment manufacturer from Manhattan with a similar, unnatural hankering for the Cowboy West. Entertaining thoughts of relocation, Baker even took a shot at the state bar exam, studying three weeks in an Arizona State University dorm. He passed, and Mrs. Baker started getting nervous.

But it wasn't until a trip in late '78 that Baker finally staked his own claim to the West. With his wife tending to their flu-ravaged daughter in a Scottsdale hotel, Baker phoned his old friend, who'd since taken a job with the Arizona Department of Real Estate. On a lark, Baker

told him he and Wachter might be interested in some land. "The first guy he introduced us to must have figured, 'Oh, here's a couple of rich New Yorkers,'" he recalls. "He showed us major-league stuff. Astronomical—like *Long Island* prices."

So Baker told his friend they just wanted something cheap. A piece of the desert, a piece of the West. When his buddy told him about two brothers who'd been working mining claims on the weekends, the New Yorkers jumped.

"Now these two *boys*," Baker continues, shifting comfortably into halfway decent Arizona twang, "like a lot of people out West, they were involved in something called 'poor-boy mining.'" That is, using unsophisticated methods to tap a vein, crush up the highly mineralized ore, and filter out the gold. "It didn't take these *boys* long

to figure out, 'Hey, we got us a couple of Eastern *boys* here, maybe we can get 'em to bankroll us.'"

Not quite. But Baker did agree to return in a month to check out the mines. When he went back, the brothers drove him 13 miles into the desert outside the town of Wickenburg. "I said to myself, 'I'm going to get murdered out here, or this is going to be the biggest break of my life,'" he recalls. "I was getting involved in gold mining!" Out of the office, into the ground: the next thing Baker knew he was on his hands and knees—the brothers couldn't afford to prop up the ceiling—with a pickax in hand and a lantern helmet on his head, crawling,

bumping, pinching his way 150 feet into the earth. "It was terrific! But there was *no way* we were going to give those *boys* an open checkbook to operate those mines."

The brothers went bust soon enough. So Baker contacted the mine's owner, Bill Bones of Carefree, Arizona. Sure, they could work something out. With visions of cocktail party chatter dancing in their heads, Baker and Wachter picked up four claims—"for a couple hundred bucks an acre"—and as a show of sincerity took out options on 22 more. They called their partnership Zahav—Hebrew for gold—Enterprises. "Some of the Arizonans we got to know, they'd ask me, 'Howrrrd, what's this *Zay-hav*?' I'd tell them, 'Oh, that's a mystical, Middle Eastern name.' They'd say, 'Middle Eastern? You got *A-rab* money behind you *boys*?'"

When the New Yorkers went out to close the deal in April 1979, Baker didn't think he could find the property again by himself. No problem, Bones offered to drive them. But as they neared the town of Wickenburg, a police officer stepped out and stopped traffic. "I said, 'Mr. Bones, what's going on?'" Baker recalls. "He said, 'Wayll, you got to stop 'cause the DC's comin' back.'"

**Cowboy hats,
hitching posts,
Indian reservations,
dust storms,
livestock,
"Howdy, boys"...
Howard Baker
couldn't get
enough.**

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Looking up, Baker saw his Western fantasy come true. A long line of dusty riders stretched into the distance, all cowboy hats and weathered gear. It was the Desert Caballeros returning from their annual ride. Hundreds of cowboys and wannabes from all over the country—a Wickenburg tradition since 1947. “We could’ve picked any day to close on those mines,” says Baker. “God was on our side.”

With every motel in town booked, the New Yorkers ended up at a resort on the outskirts. Come supper time, the dining room was full of Desert Caballeros. “What are you *boys* doin’ out here?” asked one cowboy, introducing himself as head of the local chamber of commerce.

“Well,” Baker answered, all Big Apple proud, “we just bought some gold mining property.”

“What?!” snapped the cowboy.

So much for a warm Western welcome. Only Easterners, Baker later learned, had ever made big bucks off gold mining in those parts. “And maybe they figured out we were Jewish, I’m not sure.” But the New Yorkers took the high road, returning time and again to Wickenburg, buying dinners, listening to yarns, even offering odd jobs on their mines to the cold-shouldered cowboy and his kin. “They saw we didn’t have a scheme, we were just a couple of guys out having fun, and eventually they took a liking to us.”

Meantime, in early 1980 the price of gold was heading for the moon. Quite a surprise to Baker, who claims he hadn’t even been following it. So the New Yorkers found some additional investors, exercised their options on the remaining mines, and dubbed their new partnership Los Altos Yentos—Yiddish for The Busybodies.

“Hey, *Howrrrd*, what’s this Los *Al-tos Yen-tos*?”

When Baker wanted to show his new partners what they’d sunk their money into, he tapped the same cold-shouldered cowboy to arrange a Western-style tour of the mines. “He showed us the graves of some massacred settlers, caught us a rattlesnake and skinned it for lunch, brought out some horses and rode us around the property—a wonderful couple of days,” Baker remembers. And when the tour was over, the cowboy melted. “He told us, ‘You know, you *boys* aren’t so bad after all, I

really think I sized you up wrong.’ Then he said, ‘Remember that ride you met on your way into Wickenburg? Maybe you’d like to go sometime.’”

It was sweet music to Baker and Wachter’s ears. The next year the cowboy sponsored them, and they’ve been Desert Caballeros ever since.

That same cowboy kept up as the New Yorkers’ annual trail boss, running Baker’s securities slickers through the Monument Valley, the San Francisco Peaks and elsewhere in the Arizona wilderness, and eventually launching a horseback vacation outfit of his own. Then in 1990 the cowboy sold out to his horse supplier, Don Donnelly Stables at Gold Canyon, and Baker found himself with

another strong-and-silent Arizonan to break in.

“We’ve turned Donnelly into a *mensch*,” says Baker, succinctly, of his eventual success.

Of course, Baker isn’t quite the nice Jewish boy he once was, either. He’s got an easy, unmistakable intimacy with the Arizonans he’s met over the years. He’s devel-

oped a keen interest in the Cowboy West, stocking his Trinity Place office with artifacts. On his rides, he’s the only non-Arizonan who can actually sing along around the campfire. And he keeps a couple of saddles and duffels of extra-large Western duds stashed in Wickenburg...for next year.

And Baker’s securities slickers? They play along. On last September’s ride, the Finnish Options Market’s Asko Schrey was spotted stalking the camp in his patchwork cowboy get-up, quick-drawing a banana at anyone who moved. Gateway’s Peter Thayer threatened to disrupt the cowboy poetry contest with an ode to the dust called “The Red Booger Valley.” And Lehman Bros.’ David Marcus put in a few late nights at the campfire, strutting his stuff to the beat of a Navajo drum.

Baker and Wachter ended their mining exploits some years back with a buyout from an Arizona mining firm that proved favorable, though less than lucrative. “Bottom

line, it hasn’t turned out like we thought,” says Baker, resignedly, before adding in the blink of an eye, “but we could never, ever, ever, ever have replaced the fun we had and nice people we met along the way.”

**The AMEX's
Howard Baker:
all of his cowboy
dreams came true.**



A Monumental Ride

The Monument Valley rolls like an ocean, bakes like an oven, scrapes the sky like midtown Manhattan, and pretty much goes on forever. It's powerful, dreamy and unreal, a rugged palette of wind-blasted sandstone, lengthened shadows, curious vegetation, and jaw-dropping vistas.

It's also a hell of a place for a horseback ride. Don Donnelly Stables has been running tours through the Valley since 1990, the only non-Navajo outfitter with access to the tribal park's interior. A lifelong Western horseman, Donnelly calls his tour "the best recreational riding in the country"—and he just may be right. Unlike nose-to-tail dude ranch trails, riders are free to spread out, to trot and lope at their own pace across fields of sage brush and red sand. It's a real treat.

We went with Howard Baker's group last September. Things got started near the Mitten Buttes, made famous in so many cowboy flicks and, lately, every other pickup truck ad. Three hours, plenty of dust and magnificent wide-open spaces later, we rode into camp beneath the angry pinnacle of Thunderbird Mesa. Accommodations included comfortable tents, tolerable cots, good Western fare, and the unheard-of luxury of hot showers. Each evening ended with fine cowboy entertainment around a crackling fire; the night sky alone seemed worth the price of admission.

There are ancient ruins scattered about the Valley, but

its recent history is short. White traders were there during the late 1800s, though few tried to settle, the land being too harsh. Even the Navajo didn't occupy it until the 1860s, taking refuge among the monuments while Kit Carson was wiping them out and rounding them up elsewhere. In the 1920s Harry Goulding's lodge brought the first tourism and economic activity. But it took John Ford to bring the Valley's magnificence to the general public, in such classics as *Stagecoach*, *My Darling Clementine* and *The Searchers*.

Still, the Valley remains remote. Navajo guides are always available for tours into the interior, though most visitors stay on the scenic, 17-mile, unpaved loop. Each ride took us cowpokes to new sights: the gangly spires of the Yei Bi Chei and the Totem Pole Clint Eastwood scaled in *The Eiger Sanction*; the washed-out splendor of Little Monument Valley; the stunning vista from John Ford's Point. Most spectacular was a trip to the top of Mitchell Mesa, covered with tiny cacti and twisted trees. After an hour's ride up a tenuous trail, the park was spread out below us. Incredible views: El Capitan, the Mitten Buttes, the Four Corners, and the carloads of poor tourists chugging along the loop road.

This year Don Donnelly Stables will run eight tours of the Monument Valley from May to October. Cost: \$1,400 per person for eight days; \$1,000 for five days. Call: 800-346-4403; 602-982-7822; fax: 602-982-8795. •

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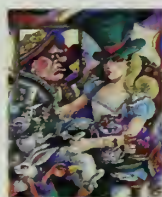
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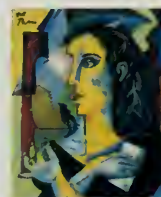
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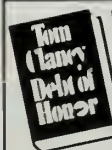
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A PICKER'S PORTFOLIO

BY COYOTE JACK

ILIVED THROUGH the Sixties, picking my way through the throngs of self-righteous twits howling songs of protest before going on to other things—drug rehab, successful lives, the White House.

And how many of us from those heady and infantile times of altruism have now found ourselves somewhat to the right of Vlad the Impaler?

A lot of the music was pretty good, though, and the root music was a whole lot better. Music you make your own self or with friends is a good and handmade thing.

The guitar I'm holding is a Gibson J-200, made in the 1930s. It sells these days for a modest \$16,900, because it had to be restored. If it was a mint-condition guitar—only 97 were made—it would be worth, oh, two or three times that. They ain't making any new old guitars. Only about half of these have been accounted for, so if you had a scalawag uncle who ran off to Nashville or Arizona to sing cowboy music back in the Thirties before coming back home to die of drink, you might look in the attic of the family manse, carefully.



"Music you make your own self or with friends is a good and handmade thing," says our leading solon, Coyote Jack (pictured here), fondling a \$16,900 Gibson J-200.

There are two main acoustic guitar companies in America—Gibson and Martin. They've both been making good guitars for a long time, and the manic rise in value of good old instruments has propelled both companies into the manufacture of instruments of equivalent quality—priced from \$5,000 to \$20,000, depending on the wood and how much abalone shell you want in the fingerboard. That's for the new ones. Old Gib-

sons and old Martins can cost a hundred and fifty grand.

No two guitars are exactly alike—good ones anyway, just like books—and the bad ones are all alike, the way they sound. The tops of good guitars are made usually of spruce, close-grained and evenly laid. In the 18th and 19th centuries the Admiralty sent inspectors to temperate British possessions to stamp splendid spruces fit for masts on Whatever Majesty's warships as Whatever Majesty's pines. When the advent of steam and steel so lowered naval tone, the spruces were left, and some of it made its way to guitar makers.

The top of a guitar is there for tone, the sides and back for tone and beauty. The box is made of rosewood, or curly maple, or koa or mahogany—the list is long and obscure. The neck of hard strong wood, the fingerboard usually of ebony, a wood so hard it blunts chisels, and so heavy it sinks if you toss it in water.

The Stringed Instrument Division of Missoula, Montana, is run by Peter Bedino Barberio, luthier, who won't talk to anybody, and Greg Boyd, a genuinely affable

man. Plays bluegrass, though. Sigh.

They have a great long list of instruments—banjos, mandolins, mandocellos, ukelins, and the like—the last two are hybrid instruments (there were a great many) available through catalogue stores before the advent of phonographs and radio.

They have a National steel guitar, Style #4 Tri-cone with Chrysanthemum engraving—five thousand bucks, played with a slide across your lap and essential to the sort of music it's essential to. Pure Country.

Fiddles. Classic electric guitars. Hawaiian guitars. Parlor guitars. I think I even saw a trumpet in there, and the sort of drums used to announce Third World executions.

And a few guitars made by independent master luthiers. These guys, who often work utterly alone, eschewing even apprentices, are the sort of folks who make their guitars the way they like, at a rate of six to ten a year. These instruments are livelier than any others that I know, and I choose not to name the makers in this piece, because there is one there I covet, and Hollywood ain't called quite yet. Greg'll probably tell you, though.

...and now, a cup of tea for the pipes, some friends are on the way here to pick a little, and I'm trying to finish a new song, an anthem for the times... "OH, SCREW EVERYBODY"...Rush Limbaugh will love it. ●

—COYOTE JACK

Stringed Instrument Division features a search service for rare instruments and guitars in the \$150 to \$150,000 range. 123 West Alder, Missoula, Mont. 59802; 406-549-1502.



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Face value: General and Mrs. George Custer's honeymoon portraits on porcelain vases, at Butterfield & Butterfield.

BOXING, BOOKS AND BAD BOYS'
BELONGINGS ARE ALL ON THE BLOCK
IN THIS SPRING'S AUCTIONS

Custer and Western Memorabilia, Butterfield & Butterfield

'Tween reconstructin' Texas after the Civil War and fightin' the Indian wars up in the Dakotas, General George Custer and Libby, his missus, headed down to Sin City for a delayed honeymoon. In July 1865, they sat for these portraits in steamy New Orleans. Artist R.T. Lux then painted likenesses of the happy couple onto the blank, 11-inch Continental porcelain vases, which were then gussied up and gilded—the perfect knickknack for the sentimental strategist. Estimate: \$40,000-\$50,000.

Also up for grabs are two pistols which belonged to desperado Jesse James, vigilante raider and robber of trains and banks from 1866-1882. The estimate for the unmatched pair of a Colt single-action Army revolver and a Merwin and Holbert Frontier revolver is \$100,000.

Featured in this Western-themed auction is the work of two photographers. For 30 years Edward Curtis stormed around the Western landscape photographing portraits and chronicling the culture of over 80 Native American tribes. His work, which became 20 volumes of photographs, was praised by Teddy Roosevelt and



"Old Church at Ranchos de Taos" by Ansel Adams, at Butterfield & Butterfield.

financed by J.P. Morgan. The original owners of "Cañon de Chelly," taken in 1904 of the

Navajo in eastern Arizona, are putting this photograph up for sale. The 13"-by-16" gold-toned image in its original 21"-by-24" studio frame is signed. Estimate: \$12,000-\$16,000.

Also on the block is a photograph by Ansel Adams. The 1929 photograph "Old Church at Ranchos de Taos, N.M." seems too quiet and architectural for the portraitist of Yosemite's soaring Half Dome. This 7"-by-11" photograph displays his technical mastery in its attention to texture and subtle gradations of light. Estimate: \$5,000-\$7,000.

The Custer and Western sale is on April 14. Contact: Cynthia Stern. 415-861-7500, extension 377.

19th-Century American Toys, Skinner

"God is in the details" must have been this toy designer's motto—every Chicago street on its Jackson Park route is listed, the seats flip down on both sides, and there are conductor and driver figures. Made of brilliantly colored lithographed paper on wood, this 27-inch trolley was made in the 1890s by R. Bliss Manufacturing Company of Pawtucket, Rhode Island, which was also known for its doll houses, boats, trains, blocks and games. Estimate: \$3,000-\$3,500.

Also on the block in the highly

unusual gathering of 19th-century American toys (before World War I, most toys were imported from Germany) is a group of cloth dolls, including a Beecher baby and other handmade dolls; and an Ives tin rowboat, *The Mary*, with a sophisticated brass clockwork-gear system that, when put in water, actually rows (\$5,000-\$7,000); and a Märklin (*ja, das ist Deutsch*) hand-painted tin train freight station from around 1905 (\$800-\$1,200).

The 19th-century

Paper lithograph Jackson Park, Chicago, trolley from the 1890s, at Skinner.



American Toys sale is on April 7. Contact: Andy Ourant. 508-779-6241.

Boxing Memorabilia, Superior Galleries

In 1936, Hitler's pride and joy, blond boxer Max Schmeling, blew away America's rising star Joe Louis, a defeat which seemed to justify certain nasty racial theories.

In 1938, they met again, and this time, in two battering minutes, Louis KO'd Schmeling in the first round. Louis,

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heavyweight champion of the world, returned home a hero. Schmeling hung up his boxing gloves and spent the war jumping out of airplanes in the losing cause.

On the block is one of three extant posters from the second fight. 28"-by-40", this one-sheet poster is worn only at the edges and folds, and is estimated at \$3,000-\$4,000. With 699 other lots of boxing memorabilia from the Duke Hott Collection, including Jimmy Braddock and Joe Louis championship belts, up for grabs on March 18. Contact: Larry Goldberg. 310-203-9855.

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Western Bookbindery Club Office, 5th West 42nd St., Phone 242-0000 and 242-0001
Admission 1940 to 5th Ave. Phone 466-0000

A poster that's definitely a contender, at Superior Galleries.

Sporting and Travel Books, Swann Galleries

Jocks with bum knees can enjoy a vicarious workout by beefing up their sporting library. Golfers may rejoice at adding *The Golfer's Alphabet*, by W.G. Van T. Sutphen and illustrated by the gentleman watercolorist A.B. Frost. Published in 1898, way before Big Bertha and those God-awful visors everyone insists on wearing, *The Alphabet* shows a charming, gentler era of the game. The estimate is \$400-\$600—the equivalent of a weekend on the links at Pebble Beach.

"Trusty" the feisty bulldog pictured in *The Fancy*; Or, *The Authentic Memoirs Of The...Leading Pugilists*, London, 1826, made his owner a pretty penny. Facing a ten-guinea bet that "the adversary would not go home without leaving some part of his body behind him," Trusty ripped apart his opponent. His owner later

"presented two of the beaten dog's claws, which Trusty had torn off in the contest." Ick. *The Fancy* is a two-volume first-edition book about fighters, both human and animal. Estimate: \$800-\$1,200.

On the block are over 100 lots of sporting books including hunting, shooting and angling—a scarce copy of the 1933 *Yacht Racing Log* (\$600-\$900), perhaps? There are over 200 lots of travel books on voyages and exploration including *A Voyage To The South Sea, And Round The World* by Edward Cooke published in 1712 (\$1,000-\$2,000).

The sporting and travel book sale is on March 16. Contact: Tobias Abeloff. 212-254-4710.

Globes, Christie's South Kensington

Before Global Positioning Systems, all that an explorer's financial backers had to go on were their own speculations.

When asked, "Where's our nan Cook these days?" a gentlemen in the mid-1700s whipped out a stylish pocket globe. "He already found the Sandwich Islands," he might have said, pointing at the map of the world attached to the three-inch diameter globe in a wooden case. "Hope he doesn't get too close to those Hawaiian islands." "I'll lose my shirt if he loses his life." Pocket



"Trusty," a puglist pet, from the 1826 book The Fancy, at Swann Galleries' travel and sporting books sale.

globes and desktop globes (would that come with or without a mouse?) are up for grabs, and their estimates range from \$1,000-\$3,000.

At left is one of a pair of three-foot-tall library globes on mahogany stands from the 1860s. Twelve inches in diameter, these globes are much smaller than the standard 18-, 21- and 25-inch globes that were then mass-produced. Hand-painted and handmade by instrument makers, this set is estimated at around \$16,000.

"Pretty bloody accurate" describes the early 18th-century planetarium by W&S Jones of London. The Reverend C. Rogers of Beech House, Sowerby Bridge, Yorkshire, turned the brass handle, and the ivory planets—Mercury, Venus, Earth, Mars, Jupiter, Saturn, Uranus, Neptune (all but Pluto, which hadn't been discovered yet)—revolved on brass poles around a plaster sun. Two feet tall and with the gear mechanisms hidden in a brass tripod base, the globe is estimated at \$40,000-\$50,000.

The 50-lot globe sale is on March 15. Contact: George Glas-tris. 011-44-71-321-3139. ●

—ALLISON MOIR

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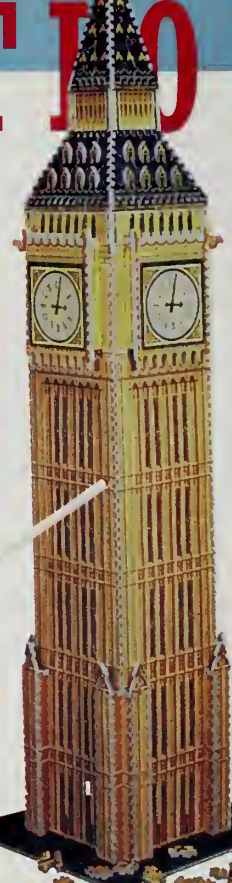
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1

*(As of press time,
all items were available;
however FYI can't
guarantee that they will
be if all of you
order the same thing at
the same time.)*



7



2

6



3



5



4



8



9



10

The AMA has a catalogue?!

(es (see below). And you don't have to be Marcus Welby to order from it.

1 "Mother Earth"—you read the story (p. 54). Now buy the roses! English breeder David Austin's anyway, such as the comely Bibi Maizoon."

Item #N45249-9 (each).....\$16
Dayside 800-845-1124

2 Mueller is the pre-eminent catalogue source of everything pertaining to billiards and darts, such as this sleek "Road Agent" cue with its hand-painted highway scenes (and extra shaft), and multi-pocketed Porper cue case.

Item #95-25 (cue).....\$576
Item #SC40 (case).....\$70
Mueller 800-627-8888

3 They only come out at night! But so do you with the handy Stellarscope—the current word on 42 stars and 70 constellations.

Item #80870.....\$38
National Geographic Society 800-447-0647

4 Editor At Large Geoffrey Norman starts each day with this good, solid scent. And look at all the action he gets.

Item #S5193.....\$17
Orvis 800-548-9548

5 Ducky, you'll never find what you need for watching the America's Cup unless you bring along this simply super Saint-Malo duffle by Louis Vuitton.

Item #M80022.....\$845
Louis Vuitton 800-285-2255

6 Jim Carrey has nothing on this Indonesian Garuda mask—guaranteed to scare unruly children back into line.

Item #8502.....\$60
Smithsonian 800-322-0344

7 Pièces de resistance! This "very difficult," 51-inch-high, 3-D replica puzzle of Big Ben will have you thinking homicidal thoughts about jigsaw-puzzle designers everywhere.

Item #32002.....\$65
Rand McNally 800-234-0679

8 How come in My Little Chickadee, W.C. Fields never tried to imitate the amiable avis's distinctive call? Because the "Birds Of North America—See The Birds...Hear Their Songs!" CD-ROM hadn't been invented yet. Pity. \$59.

Thayer Birding Software.....800-865-2473

9 In my dream I hear my doctor saying, "Mr. Christy, this is a rare syndrome which can be treated only with milk chocolate. I'm prescribing a one-pound, anatomically correct chocolate heart. Fill immediately!"

Item #OP932794PQ.....\$20
American Medical Association.....800-621-8335

10 The real Speakers of the House, as far as we're concerned, are these super Soundworks by audio pioneer Henry Kloss. Plug in your CD—or your multimedia system—and rock. \$199.

Cambridge Sound Works 800-FOR-HIFI

11 Your choice: an ugly laminate, or this airy, wrought-iron and oak computer table. A no-brainer, we say.

Item #TK001.....\$1,050
Ballard Designs.....404-351-5099

12 Wear a pair of these Hot-and-Cold-running cufflinks, and even Farrah Faucet will succumb to your charms.

Item #3572.....\$70
Eximions.....800-221-9464

13 These handsome, hand-painted Cabin Treasure Boxes with fishing decals are great for licenses, lures and the loose change of cabin life.

Item #W34C (each).....\$85
Whispering Pines.....800-836-4662

11



12



13

Kennedy Charts Strategy for Democrats

PAGE 5

City council takes up masturbation

"Are you suggesting that masturbation is not a local issue?"

Mayor Ken Reeves

Theismann: 2nd Down

Former Redskins star quarterback Joe Theismann is getting sacked again—this time by a petite onetime Miss America finalist.

Theismann's second wife, Jeanne Caruso Theismann, took him to court yesterday to seek a divorce and half of her husband's estimated \$4 million to \$5 million fortune. And it already sounds juicy.

In Loudoun County Circuit Court, Jeanne's attorney, Mark Barondess, reminded the court that Joe, who separated from Jeanne in January, had been seeing a Memphis cosmetics salesclerk since April 1993, which Theismann admitted on the stand. Barondess also said in his opening statement that when Jeanne asked Joe why he had had an extramarital affair, "he said, and I quote, 'God wants Joe Theismann to be happy.'"

KIRKSVILLE, Mo., Dec. 13 (AP) — A man who prosecutors said sabotaged a levee during the 1993 Midwest floods because he wanted to strand his wife was sentenced today to life in prison.

CINCINNATI, Dec. 13 (AP) — A judge today threw out charges against a bus driver accused of sexually assaulting a woman who said the only witnesses were 2 of her 10 personalities.

POINTS OF LIGHT: The Points of Light Foundation spent \$22.3 million on promotions, salaries, travel and administrative expenses while granting \$4 million to service organizations in its first four years, the *Los Angeles Times* reported Monday. The foundation was inspired by President Bush's pledge to boost volunteerism. But the former president is not affiliated with the foundation.

MYSTERY ODORS: Residents of the nation's first subsidized apartments built for people sensitive to soap, cosmetics and household chemicals say the place makes them sick. Ecology House board members in San Rafael, Calif., are scrambling to find the sources of the foul air in the 11-unit, \$1.8 million complex.

Airlines jet as it approached Burbank, Calif., came from a passenger's personal gas canister or some other personal protection, said a Southwest Airlines spokeswoman. Fifteen of the 59 people aboard were treated. The Boeing 737-300 was en route Saturday to Burbank from Oakland.

USAir Takes New Steps to Insure That Its Planes Have Enough Fuel

To Cut Fuel Costs, Major Airlines Ditch Life Rafts on Some Routes

Bangladesh mullahs whip rapist's victim

BAKSHIPARA, Bangladesh — When Islamic clerics set up a village "court," Saher Banu thought the man accused of raping her daughter would be punished. She was wrong.

Instead of convicting the man, the 13 mullahs sentenced the daughter to 80 lashes with a supple bamboo cane for having unlawful sex.

ST. PAUL, Minn. — By the time Erin Ferguson was 13, she was spending much of her energy concealing from the world the central secret of her life — that she is gay. Lonely and confused, she longed to tell her mother what she was feeling, but she couldn't seem to find the right moment. Finally, during dinner one night, Erin was eating pretty fast and her sister commented, "Mom, Erin sure is hungry." Erin replied, "Yeah, and I'm gay, too."



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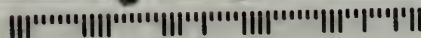
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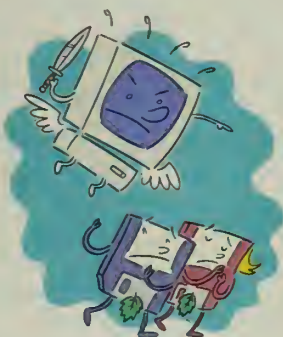
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**March 27, 1995
Volume 155
Number 7**

FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011 Second-class postage paid at New York, N.Y. and at additional mailing offices. International Publications Mail Agreement No. 451029. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048. Copyright © 1995 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office. Subscription rate: \$57 a year.

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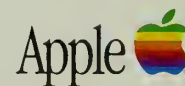
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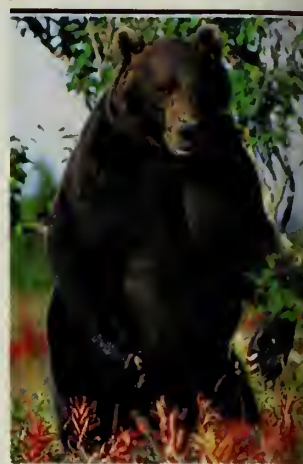
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A boomtown's second coming

"ALL AROUND THERE'S THE DIN OF THE PORT—the hoots and whistles of ships, trains rumbling by, the screech of machinery, workers cursing. I am reminded of those pictures of New York, San Francisco or Liverpool a hundred years ago."

That's how Paul Klebnikov describes the Russian Far East's largest city, Vladivostok. Established by the czars as a free port, Vladivostok was a boomtown until the Bolsheviks made it into a closed city; it remained closed until 1992. Now it's beginning to boom again as foreign capital—mainly from the Koreans and Japanese but also from some intrepid Americans—flows in to take advantage of Vladivostok's location, and the Russian Far East's natural resource wealth and touristic potential.

And its people: Russia's Far East is inhabited mostly by immigrants from other parts of Russia, entrepreneurial types who fled oppression west of the Urals. "They're less rude and grasping than Muscovites, less snooty than those of St. Petersburg," says Klebnikov, who concludes: "No place in Russia is more destined for prosperity than Vladivostok." To see why, read "Russia-on-the-Pacific," starting on page 85.



**Part of Eastern
Siberia's charm.**

New business celebrities: fashion models

JUST WHEN YOU THOUGHT no one could rival the earning power of entertainers and professional athletes, a new category of wealthy celebrities pops up: fashion models. Reporting the story took Josh Levine to Miami Beach's South Beach neighborhood. "Models now run the joint—about a quarter of South Beach's residents make their living off modeling in some way," says Levine. "Tourists flock there to ogle the models, the bars lure the tourists and before you know it, the modeling industry is pumping \$40 million a year into the mile-square local economy." Why are top models now outearning many movie stars and athletes (and, of course, corporate executives)? "We have shares," written by Levine, with Robert La Franco and David Fondiller, starts on page 75.

Canada's quiet revolution

IN "Culture cops," Nina Munk shows how Canadians are getting American TV programs they aren't supposed to watch. It's part of a trend, says Munk, a Canadian: "Each time I go home I notice among my friends a growing anger toward endless interfering by Ottawa. People smuggle U.S. cigarettes to get around Canada's heavy tobacco taxes. The market for smuggled alcohol has exploded. Now comes the gray market for DirecTV. Will this quiet revolt send a message to Canada's paternalistic government? We younger Canadians are keeping our fingers crossed." See page 42.

Lawrence Minard
Managing Editor

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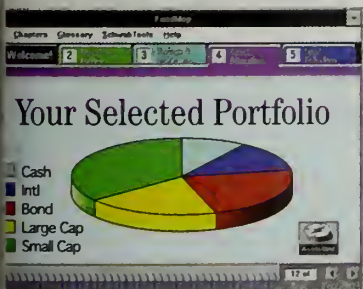
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A black and white photograph showing the interior of a car. The focus is on the leather-upholstered front and rear seats, which feature decorative stitching. The steering wheel and dashboard are visible in the background, though slightly out of focus. The overall lighting is dramatic, highlighting the texture of the leather.

PRIME SEATS ARE STILL AVAILABLE FOR THE SPORTING EVENT OF THE YEAR.

*Based on MSRP comparison of base
Taurus vs. the leading sellers in its class.
**3 years/36,000 miles. See dealer for details.

INTRODUCING THE NEW FORD TAURUS SE

It's the Taurus with a decidedly sporty edge. Taurus SE's cast aluminum wheels, new clear lens headlamps and available spoiler make a serious statement of style. Inside, the SE has a long list of driver-friendly touches. Even air conditioning comes standard. And, of course, Taurus SE also gives you the added safety of standard dual air bags to supplement safety belts for the front passenger as well as the driver, and available anti-lock brakes.

But the SE's news doesn't end there. There's a refined powertrain that delivers an especially smooth performance from the computer-controlled V-6 engine. And when it comes to value, Taurus performs equally as well, as a better value than its leading competition*.

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Thinking pink

"WE HAD BECOME fairly stagnant. We had \$3 billion in sales and couldn't get off that plateau." So Owens-Corning Fiberglas Chief Executive Glen Hiner told FORBES two years ago (*Jan. 4, 1993*).

At the time, weak sales growth was only one of the Toledo, Ohio-based firm's problems. It had also piled on debt fighting off a hostile takeover by Sanford Sigoloff's Wickes Cos. and faced billions in asbestos liabilities.

Those problems certainly haven't vanished, but as we anticipated, General Electric graduate Hiner, 60, has come a long way in restoring Owens-Corning's financial health since arriving in 1992.

Fourth-quarter profits last year rose 30% from the year-earlier period, marking three straight years of quarterly gains. Sales in 1994 rose 14%, to \$3.4 billion, and earnings rose 35%, to \$3.35 per share.

That puts Owens-Corning on track toward Hiner's goal of creating a \$5 billion (sales) company by the year 2000.

What's more, growth is balanced between international expansion, including ventures in places like Chi-



Owens-Corning's Glen Hiner
\$5 billion by the year 2000?

na and Botswana, and introduction of products like Miraflex, a compressible fiberglass used in insulation, and Aura Superinsulation panels, for retaining cold or heat in refrigerators and stoves.

So why does Owens-Corning's stock price (a recent 31) remain below its level at the time of our story? Simple misperception, argues Hiner. "The environment for us and asbestos [liabilities] has improved, and only 20% of our revenues are now driven by the cyclical U.S. new housing market."

A votre bonne santé

IN AUGUST, FORBES columnists Steve Hanke and Sir Alan Walters warned that France wasn't a sound place to put your money (*Aug. 15, 1994*). Why? A deflationary course would keep the French real estate market in a slump and ravage the balance sheets of the banks. Moreover, they predicted that blossoming scandals and corruption charges would take center stage as this May's presidential election neared.

Predictably, the French weren't pleased with the assessment. Yet since that column ran, few fundamentals

have changed. Unemployment, stuck at about 12.5%, is among the highest in Europe. The franc is in a tailspin hitting a 16-month low against the deutsche mark, despite one of Europe's lowest inflation rates—1.7%. Banks continue to suffer. Aside from the well-known government bailout of Crédit Lyonnais, Compagnie de Suez has just announced a loss of \$925 million.

And, yes, political scandals are daily front-page items, with presidential candidate Edouard Balladur no longer being spared. One of the most colorful stories involves secret, illegal wiretapping by the Balladur government of a French "sexologist"

who is related to a judge investigating another corruption scandal. If you're still not convinced of the economic and political turmoil, there's like more on the way.

—PHILIPPE MA





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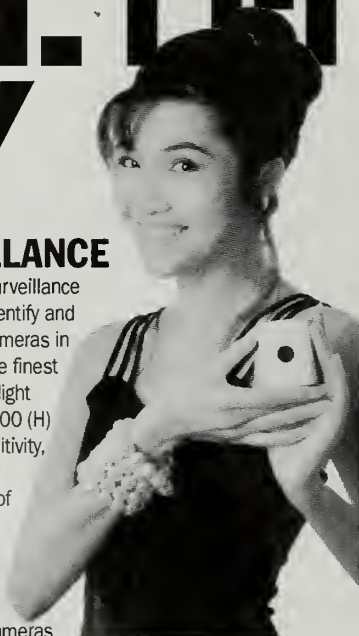
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Dead on arrival

HCI (SCOTLAND), Ltd., a startup, 260-bed hospital near Glasgow, looked to FORBES last year like a smart way to lure well-heeled foreign patients from overpriced, overregulated U.S. rivals (*May 23, 1994*). Founded by two former Harvard Medical School professors, HCI served patients from such places as Italy and the Middle East with procedure like coronary bypass surgery and hip replacements at discount prices.

HCI looked so promising that savvy investors including Montgomery Medical Ventures and Harvard Management Co. (which manages the university's endowment) pitched in \$53 million of a total \$26 million. Then in November, just five months after opening, HCI went into receivership.

What went wrong? First, HCI suf-



HCI's founders, Angelo Eraklis and Raphael Levey

A good idea gone bad.

fered an acute patient shortage. Also according to former HCI officials, in August Coopers & Lybrand issued bearish report that scared off financing needed for marketing. HCI complained, thereby causing the firm to revise its numbers. But by then it was too late. A London spokesman for Coopers & Lybrand now says HCI's marketing was faulty from the get-go.

Major investors declined comment but must not feel very well themselves. Last month HCI receivers sold its business for \$30 million to the Abu Dhabi Investment Co. If by mid-1996 the venture still doesn't show commercial promise, Abu Dhabi may pull the plug, too.

—ESTHER WACHS BOOK ■

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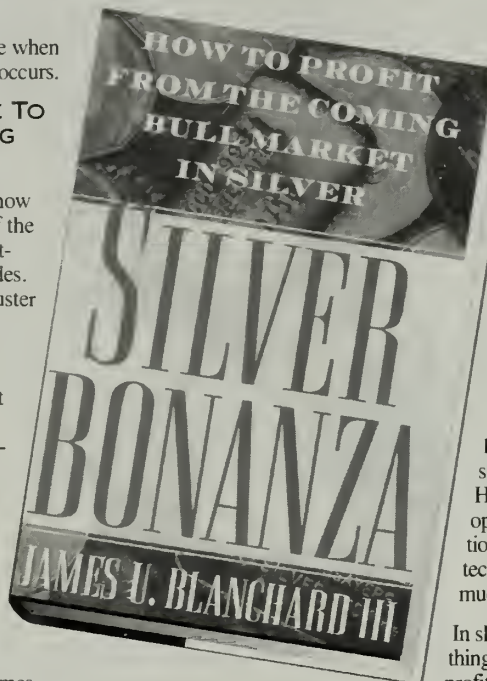
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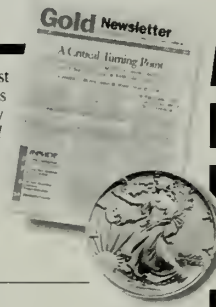
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Getaway tips

IF YOU EVER find yourself on the lam from the law, says Andrew Harper, publisher of *Andrew Harper's Hideaway Report* (FORBES, Sept. 26, 1994), don't do what Nicholas Leeson, the man who brought down Barings, did. Leeson fled to the Shangri-La Tanjung Aru Resort on the island of Borneo, where suites go for as high as \$600 a day. "Only a pompous twit would secrete himself in a 500-room chain hotel where his mug pops up on CNN!" says Harper.

Harper's advice to white-collar fugitives: "In Southeast Asia, go to a small, obscure nirvana like the Indonesian wilderness retreat of Amanwana on Moyo Island. No phones,



Shangri-La Tanjung Aru Resort
Leeson's hideout was anything but remote.

TV, radio or newspapers, and access is strictly by boat."

Or.

"Hire an outfitter in Tanzania for a long, private, deluxe tented safari into the bush. Grow a beard, mellow out, then catch a freighter from Dar es Salaam to the Seychelles."

Olajuwater

PRO BASKETBALL sensation Shaquille O'Neal shills for Pepsi. Former NBA great Michael Jordan is Gatorade's spokesman. Now the league's 1994 MVP, Houston Rockets center Hakeem (The Dream) Olajuwon has become chairman of year-old World Class Waters, of which he owns half.

World Class' Pure Texas bottled water just hit supermarket shelves in Houston. The firm also bottles private-label water and is selling Hakeem Olajuwon H₂O at Houston's Summit arena, home to the NBA champion Rockets. Giant food distributor Sysco may take the brand national.

Olajuwon should have no trouble promoting his product. "All I drink is water," says he. Over a gallon a day.

—JAMES KETELSEN

Plenty of pickup

AT THE Indianapolis Motor Speedway, fans will see something new on the track this summer, come race time: a pickup truck. On Aug. 5 a customized Chevrolet C/K short-box pickup truck will pace the second Brickyard 400 Nascar Winston Cup stock-car race.

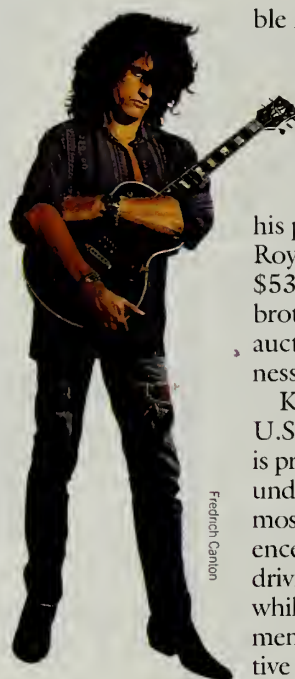
Explains Chevrolet boss Jim Perkins: "Race fans, and especially Nascar fans, really love trucks." Do they ever. Nascar estimates about half of all stock-car fans own pickups. With that in mind, this year it inaugurated a 20-event SuperTruck Series by Craftsman for custom-built racing trucks. It kicked off with a race in Phoenix in February that drew 40,000 fans and was watched on The Nashville Network (TNN) by 1.7 million viewers.

—R. LEE SULLIVAN

A riff and a rating

MINDFUL THAT Aerosmith's popularity with the preteen set has made the rock band a top-grossing act, last year Fox Children's Network and Marvel Entertainment hired Aerosmith guitarist Joe Perry to write the theme song

Aerosmith's Joe Perry
His gig for Spider-Man
has paid off.



Fredrich Canon

for the *Spider-Man* cartoon series.

The new Saturday morning series, which premiered last month on Fox, spun webs around the competition in the February ratings sweeps. *Spider-Man* beat out popular cartoons like *X-Men* and *Mighty Morphin Power Rangers* to take top honors among shows for an audience aged 2 to 17.

"It was a natural marketing fit," Fox executive says of the cartoon/rock tie-up. —ROBERT LA FRANCE

This is indigence?

AS BOSS OF North Palm Beach, Fla.-based, \$1.5 billion (assets) First American Bank & Trust, Roy Talmo took home as much as \$900,000 a year during the 1980s, owned a Rolls-Royce, land in Tennessee plus a Florida tree farm.

In 1989 regulators shut First American, which was reeling from bad real estate loans, and Talmo filed for personal bankruptcy protection in 1993.

Last fall the feds filed a 12-count indictment against Talmo for alleged misuse of bank funds and filing false statements on bank records and loan applications. Separately, a bankruptcy court ordered his assets to be liquidated. Talmo pled indigence and got a court-appointed lawyer. Recently he asked for a court-appointed investigator, too.

Trouble is, just before that he asked the bankruptcy court to cancel an auction of his personal belongings. Talmo said he would buy back

his personal assets, Rolls-Royce included, for \$53,000. Meanwhile, his brother bid \$560,000 at auction for Talmo's Tennessee land.

Kendall Coffey, the U.S. Attorney whose office is prosecuting Talmo, is understandably miffed. "The most striking incongruence," says Coffey. "Talmo driving his Rolls-Royce while obtaining government-financed investigative aid." —MATT WALSH ■

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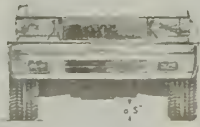
THE ROAD IS PAVED WITH IDIOTS.



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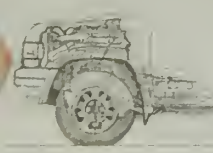
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NEA aftermath, revisited

SIR: Re "Comeuppance" (Feb. 13). I resent your double-barreled attack on NEA. South Dakota, where I live, is a right-to-work state and yet most of our teachers choose to belong; they certainly aren't forced to belong. And even though FORBES purports that NEA is top down, all resolutions are submitted by state delegations (made up of teachers) and are voted on by the 10,000 delegates who are teachers and education employees from all over this country.

—CAROL MURPHY

President

*Rapid City Education Association
Rapid City, S.D.*

SIR: I now belong to NEA, against my will, and have belonged to several AFL-CIO supported unions. Those unions never participated in the questionable policies that NEA is famous for. Please do not take it for granted that the general labor movement endorses the actions of one outlaw organization.

—JEFF MOULTON

Rochester, N.Y.

SIR: Having served as a school board trustee for six years in a small community, I dealt with NEA's antics on an almost weekly basis. If union members spent the time they now spend trying to destroy administrators and school boards and invested that time in trying to make the school system better, the United States would have the "best" schools and "best" teachers in the world. NEA deceives its own members, parents, community members and school boards but whines and cries "foul" when caught at its own game.

—NORMA J. CLEVELAND

Laurel, Mont.

What a crime

SIR: Re "The tragedy of Bosnia" (Jan. 30). It is rather sad that Caspar Weinberger concluded with "what should have been done" rather than what can still be done. In spite of the world's indifference to the atrocities perpetrated against their women, children and old folks, the legitimate government and people of Bosnia have courageously held on to their

freedom. The least we can do as the leader of the free world is to lift the arms embargo unilaterally and to provide military aid, so that they can fight the aggressors on an equal footing.

—ISMAT KAMAL

Irvine, Calif.

SIR: I have lost 18 relatives who were brutally victimized by the Croatian Ustachi. Serbia was our loyal ally in both world wars; what were your friends the Croatians and Bosnian Muslims up to? Croatia was a Nazi puppet who systematically eliminated 750,000 Serbs, 60,000 Jews and 40,000 Gypsies. The Grand Mufti of Jerusalem, Mr. Husseini, came to Europe in 1941 and was instrumental in forming two Bosnian Muslim divisions. These committed widescale massacres against Bosnian Serbs. The international community's unequal treatment and embargoes have placed the Serbs' backs against the wall.

—DANIEL J. PYEVICH

Hillsdale, Ill.

ABCs for kids

SIR: Re "Babies as dolls" (Feb. 27). I was dismayed by the two mothers who used purchases as a bribe for avoiding a "scene," or because the mother doesn't "know how to say no." If an adult can't establish boundaries when a child is a toddler, will it be easier when that child is a teen? During a recent interview with an elementary school principal, I asked what is the one thing she wished every child had while they were preschoolers. "A parent who [sat] each day and read with them."

—SUSAN J. LAMBERT

West Lafayette, Ind.



Money well spent

SIR: Re Sir John Templeton and "The principle of maximum pessimism" (Jan. 16). Rather than spending "tens of millions of dollars" on translation of the Dead Sea scrolls, the actual expenditure of the seminary on this project was \$250,000. We regard this as an extremely worthwhile and reasonable expenditure.

—JOHANNES R. KRAHMER

*Chairman of the Board of Trustees,
Princeton Theological Seminary
Princeton, N.J.*

Our mistake

SIR: Re "Call me Dickinson" (Jan. 30). FORBES stated that John Laurienti had "agreed to return \$3.7 million" in commissions and over rides on trades of Fairmont Resources, which error implied other serious misconduct by Mr. Laurienti. The amount returned should have read \$3,664.46, and Mr. Laurienti was found only to have failed reasonably to supervise another broker. Mr. Laurienti is no longer with Dickinson & Co.

—MAX D. STERN

Boston, Mass.

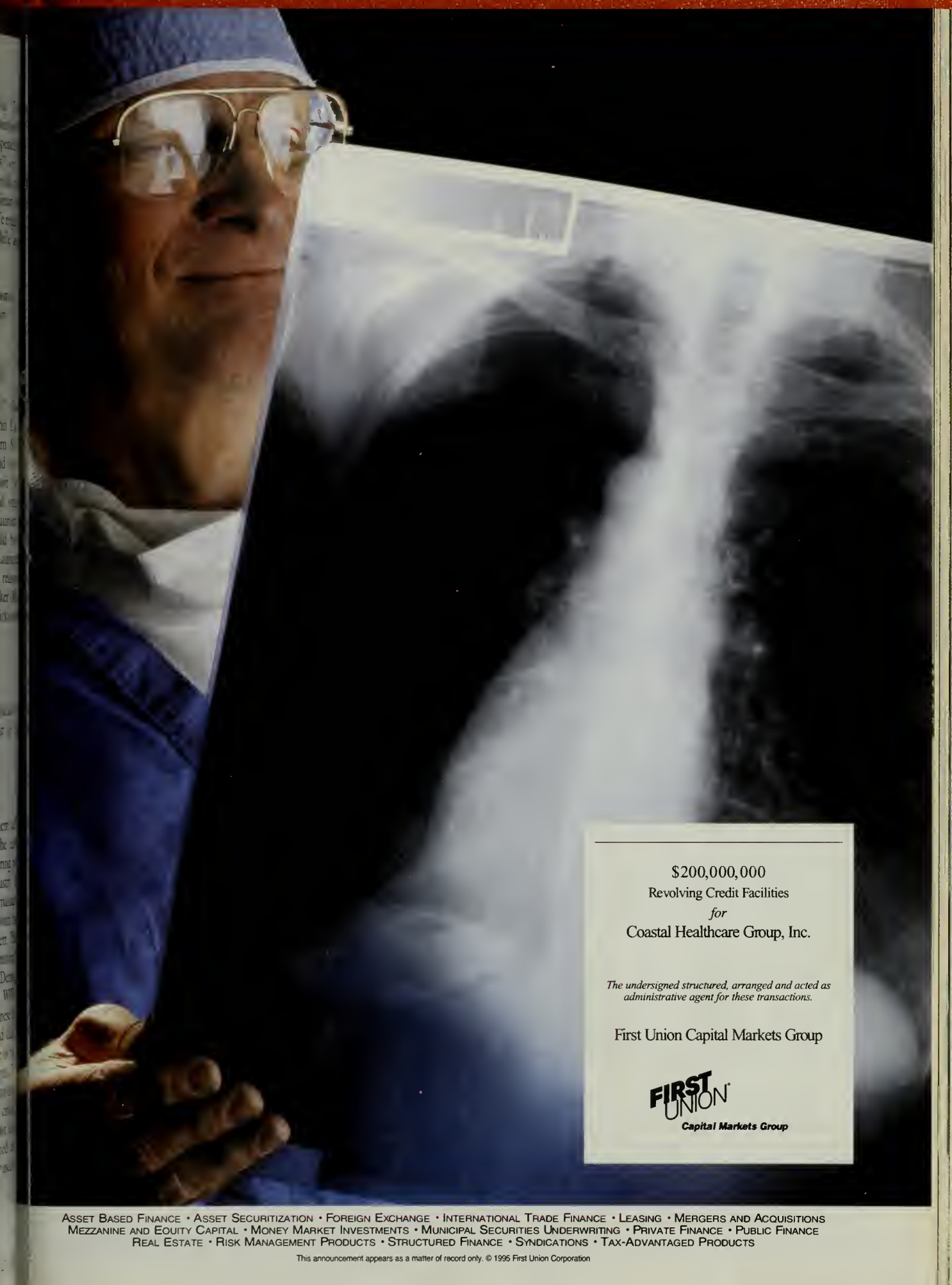
Oops. We regret the typographical error. FORBES stands by the rest of the article.—ED.

Nothing new

SIR: Re "The mother of them all" (Jan. 16). After school in the early 1950s, I accepted an engineering position in the aircraft industry at Chance Vought, Inc., where management practices were in line with the writings of Mary Parker Follett. This management concept was transferred to Japan by Dr. W. Edwards Deming during reconstruction after WWII. The result has been the Japanese development of quality "world class" products, a favorable balance of payments and high personal incomes. We now see Japanese management theories of teams and "quality circles" returning as new management ideas but in fact are highly refined and developed concepts originally used by old aircraft corporations.

—CHARLES E. MACNEILL

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



SPECTER OF THE FLAT TAX

REPUBLICAN PRESIDENTIAL CANDIDATES would do themselves and the nation well by taking a cue from long-shot Arlen Specter. The Pennsylvania senator, noted thus far only as the most outspoken pro-choice GOP White House aspirant, has a chance to leap into the first tier now that he has proposed a variant of House Majority leader Dick Armey's flat tax proposal.

Republicans have badly underestimated the potency of this issue. I chair Empower America, a citizens' reform organization whose co-founders include Jack Kemp and Bill Bennett. We have done national mailings and run radio spots in Iowa, New Hampshire, Florida and Arizona advocating the Armey flat tax. The

Richard A. Bloom/SABA



Specter: Flat tax raises presidential profile.

results have been phenomenal. Responses have far exceeded those to any other issue we have been involved with, including health care, welfare and tort reform.

Specter's proposal differs from Armey's plan in that it allows modified deductions for mortgage interest and charitable contributions. Specter also assumes no future budget cuts. Thus, his flat tax rate is 20% instead of Armey's 17%. But, like Armey, Specter would not impose a levy on dividends, interest, capital gains and estates.

If Phil Gramm, Bob Dole, Lamar Alexander and Pete Wilson want to leap ahead of the GOP presidential pack, they should warmly embrace an undiluted flat tax.

THIS SPEAKER IS MORE THAN A TALKER

EVER IN AMERICAN HISTORY has a Speaker of the House of Representatives pushed through so much sweeping, substantive legislation as Newt Gingrich is doing. This extraordinary achievement is being obscured by the speaker's incurable, off the-cuff volubility and by Democrats' incessant, ever more spurious attacks on both his integrity and the substance of his program.

Regulatory reform underscores Gingrich's strategic legislative genius. Rather than engaging in drawn-out, notional battles rewriting environmental and other social engineering laws, House Republicans are simply requiring that the resulting regulations go through rigorous cost-benefit analyses and respect and protect constitutional property rights.

The Republican drive to reform our unjust, enrich-the-lawyers-and-impoverish-everyone-else civil justice system is aroused the trial bar to fever pitch. Since trial lawyers are the biggest source of Democratic Party contributions, it's no surprise the White House is talking veto. But real reform

is coming, if not now, then certainly after the next election.

The Gingrich GOP is also moving ahead with real welfare reform, which we have never had.

Recognizing that there is inadequate support for a term-limits constitutional amendment, Gingrich is going along with the idea of passing legislation—only a simple majority required—that would explicitly permit states to impose their own limits on their congressional representatives.

There is more to come. House Republicans are preparing big-time budget cuts. Even better, they will begin hearings this spring not only on the tax cuts promised in the *Contract With America* but also on the Armey flat tax plan.

With his forceful leadership, Gingrich, not the President, now dominates our domestic agenda. He, not Clinton, is the agent of radical change.

Even if you don't like the substance of Gingrich's program or are turned off by his style, you have to marvel at the man's vision, audacity and ability to get things done.

DEADLY DEAL

TREASURY SECRETARY Robert Rubin consciously decided to shatter an already shaky Mexican economy, to enormously increase illegal immigration into the U.S. and to poison U.S.-Mexico relations for a generation, he couldn't have concocted a more potent instrument than the bailout agreement he recently foisted on Mexico. America's chief financial officer behaved more like a loan

shark enforcer than a wise, sensitive statesman.

By publicly imposing draconian austerity measures, Rubin makes the U.S. the target of rising Mexican ire at its plummeting standard of living. Rubin decreed that, come what may, Mexico must run a budget surplus. In the face of rapidly rising interest rates and an economy plunging into depression, the desperate Mexican govern-

ment is readying massive tax increases to comply. This, of course, will only make a contraction more severe, forcing millions across our borders or into Mexico's already too large "informal" economy.

Just as destructive, and in the name of fighting inflation, Rubin also demanded a decline in the "real" monetary base. This is a willful destruction of credit and, like the tax increases, will deepen the depression. Can't anyone remind Rubin what happened when *our* monetary base collapsed in 1929-32?

President Clinton had better recognize that his Treasury Department has inadvertently landed him a foreign policy crisis of the first magnitude. It is essential, especially in the aftermath of the sensational charges against the former Mexican president's brother, that the economic crisis be quickly defused.

Here's how: Instead of using those loans to bail out

short-term speculators in Mexican securities, use the to directly buy up (and therefore revalue) the peso itself. Before the December devaluation that set off the financial hurricane, the entire monetary base of Mexico—bank reserves and currency in circulation—amounted to only \$1 billion. In other words, Mexico now has the resources to literally purchase every peso in circulation. Mexico's announced goal should be to revalue the peso to its December level of 3.5 to the dollar. The peso is being pounded in *anticipation* that the Bank of Mexico will be forced to continue its inflationary printing presses. After a revaluation, interest rates would promptly fall, and there would be no more inflation.

Mexican businesses would thereby avoid bankruptcy and catastrophic layoffs. Mexicans would be delirious with delight that their salaries and savings would be *restored*.



Rubin and Finance Minister Ortiz after signing Mexican economy's death warrant.

CONGRESS SHOULD STRIP

major league baseball of its antitrust immunity. Only the winds of the free market will save the once national pastime. As economic consultant Jude Wanniski wrote in the *Washington Post*, "Baseball is dying because of the dead hand of government, of corporate socialism."

Socialism doesn't work economically, and it's becoming a self-evident disaster in professional sports as well. Why should owners engage in revenue-sharing schemes that have given insufficient rewards to successful teams and provided unwarranted subsidies to laggard ones? Why should owners be able to block the sale of a team between a willing seller and buyer? Why shouldn't an owner be able to move his franchise from one city to another at will? Why should players' salaries be capped? If a league decides to expand, why shouldn't the wanna-be cities be able to bid at open auction?

With the abolition of the antitrust exemption, the immense revenues from the playoffs and the World Series would mostly go to the winning teams instead of being shared with everyone. Success on the field would mean financial success. Such incentives would encourage true

team play and generate genuine fan loyalty. Even a seemingly small city could make it financially if it fielded a winning group of players. If a city cannot support a baseball club, it doesn't deserve to keep it. A free market would put a premium again on innovation and effective marketing.

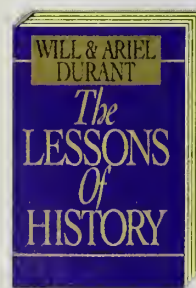
Sure, there would be problems working out new arrangements, but every American business has been forced to adjust to changing circumstances. To survive, baseball cannot be immune, either. In fact, professional baseball has usually resisted innovations that ended up enriching and enlivening the game, from the livelier ball after World War I to televised games after World War II to racial integration to abolishing the plantation-like reserve clause to colorful uniforms to multiteam playoffs.

Even the most mossbacked owner must recognize that using replacement players will make his franchise virtually worthless. All baseball aficionados—owners, players, fans, vendors—should petition Congress to phase out baseball's special status, lest the game be irreparably harmed.

WISDOM

The Lessons of History—by Will and Ariel Durant (Simon & Schuster, \$17). Written a quarter of a century ago by the authors of the still-impressive multivolume *The Story of Civilization*, this wee book condenses their conclusions of a lifetime of historic scholarship. The Durants knew too much to offer bromides. While some of their observations are dated, particularly concerning the long-run implications of the Machine Age and the once fashionable notion of convergence between capitalism and communism, most are perceptive, on-target. Especially relevant today is their concluding chapter regarding the importance of education: "Civilization is not inherited; it

has to be learned and earned by each generation anew; the transmission should be interrupted for one century and civilization would die, and we should be savages again."



Excerpt: *In the hunting stage a man had to be ready to chase and fight and kill. Presumably the death rate in men—so often risking their lives in the hunt—was higher than in women; some men had to take several women, and every man was expected to help women to frequent pregnancies. Pugnacity, brutality, greed and sexual readiness were advantages in the struggle for existence. Probably every vice was once a virtue—i.e., a quality making for the survival of the individual, the family or the group.*

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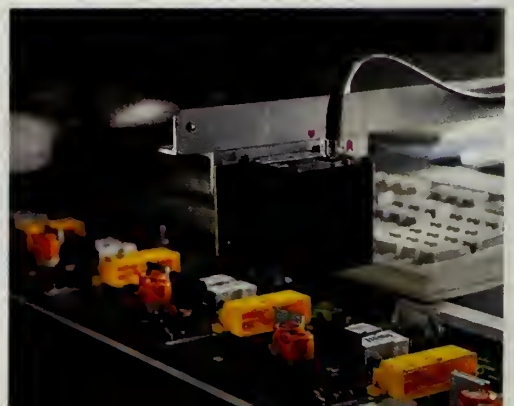
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MIND

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Other Comments

Simple Wisdom

I HAVE EXPERIENCED many instances of being obliged by better information or fuller consideration, to change opinions, even on important subjects, which I once thought right, but found to be otherwise. It is therefore that the older I grow, the more apt I am to doubt my own judgment, and to pay more respect to the judgment of others.

—BENJAMIN FRANKLIN, quoted in a 1986 speech by Warren E. Burger, chief justice of the United States Supreme Court

Play Ball!

WITH THE antitrust exemption gone, the game that I knew as a boy could soon return. I watched my first games at the age of 9, on Memorial Day 1946, a double-header at Ebbets Field between my beloved Dodgers and the Boston Braves. For six hours I stood in the lower deck behind home plate as the Dodgers split. I watched Pete Reiser, the most reckless ballplayer I ever saw, steal home—one of seven times he did it that year, a record that remains to this day. Pistol Pete's audacity became part of my life. Baseball is American because it is individualism and teamwork in perfect combination. Like our national political economy, it has become skewed toward security away

from risk-taking and is slightly out of whack. But it can be easily fixed.

Baseball owners have to realize the antitrust exemption is smothering them, and ask Congress to repeal it. Action needn't be completed immediately; just the good-faith prospect of dealing with the antitrust exemption over the next year or so should satisfy both sides and get spring training back on track.

—JUDE WANNISKI, Polyconomics, Inc., *Washington Post*

Be careful about reading health books. You may die of a misprint.

—MARK TWAIN, in *The 637 Best Things Anybody Ever Said*, by Robert Byrne

Beyond Payback

THAT THE UNENDING Democratic assault on the Speaker of the House transcends anything Washington has seen in some time has been apparent for months. This enterprise speaks volumes about the desperate state in which the Democrats find themselves.

The point, of course, is to envelop [Newt] Gingrich in a cloud of suspicion and mistrust. As the effort goes forward, it's becoming increasingly clear that this is much more than a mere Democratic payback for the role

Gingrich played in forcing Democratic Speaker Jim Wright's resignation. Leading Democrats realize that Speaker Gingrich is a powerful symbol of the change that's sweeping American political life.

—*New York Post* editorial

Greater Expectations

CAN GOVERNMENT supply manners and morals? Of course not. What it can supply, through policy and laws is a vivid sense of what we as a society expect of ourselves and what we consider ourselves answerable to.

By changing and improving our laws, we might not thereby bring about, but we would certainly help to bring about, a climate that would make it easier rather than harder for us to grow more civilized; easier rather than harder for us to keep our commitments to one another; easier rather than harder for us to recapture the idea of personal and civic responsibility. This would make it easier rather than harder for us to raise our children in safety to adulthood—something which we are not doing very well at all.

—WILLIAM J. BENNETT, co-director, Empower America, *Commentary*

Vive la Différence

FRENCH GLAMOUR has nothing to do with American glamour. In America it's based on publicity; in France, or secrecy.

—ROBERT COUTURIER, French decorator and architect, *Vanity Fair*

Natural Law

"HEY, COLLEGE BOY, what you going to study for? You goan be one o them smart-ass lawyers like they go up in the city?"

I said I wasn't certain what I was going to study.

"Hey, you know the difference between a dead lawyer in the highway and a dead possum in the highway?"

"Naw."

"Dead lawyer ain't got no skid marks in front of him."

—LEWIS GRIZZARD, *Elvis is Dead And I Don't Feel So Good Myself*



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*Tamika Elmore, 8, and Courtney Cagle, 6.
Their parents are employees of
International Paper's Container Division.*

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HAT ARE THE ISSUES?

Just as our bodies need nourishment to make it from childhood through youth to adulthood, our food needs packaging to make it from the farm through the grocery store to our dining tables.

Without the right packaging, food would be wasted. Indeed, parts of the world lacking sophisticated packaging technology, more than 50% of the food is wasted every year. It either rots or is damaged during shipping.

Fortunately, we have the technology to avoid these problems. For instance, a paper package isn't just a box made from paper of varying thicknesses with graphics thrown on it. Almost every package is a remarkable technological feat, each a specific solution to a special problem. Some packages endure fluctuations in temperature and humidity, they hold ice while allowing the water to drain, some withstand scraping stacking without being damaged. You get the idea. Without different types of packaging, we wouldn't have access to as much fresh food. You also wouldn't have as much variety. Some foods would become too expensive for many people to afford.

The abundance of packaging also raises the question: would we be better off without it? The answer: not really. The practical solution is a packaging material that not only fulfills all the requirements of getting food to us but is also ecologically conscious, sustainable, renewable and recyclable. At International Paper, we understand the need to find a balance between preserving milk for tomorrow's breakfast and preserving forests for future generations.

WHAT WE ARE DOING.

International Paper invests millions every year developing innovations that keep food fresh and nutritious. Our Barrier-Pak® beverage cartons use a patented layering process of special papers and coatings that function as sophisticated barriers to hold in the fresh taste and flavor of juices. We're also working on new packaging systems that will keep milk fresh and nutritious even longer.

Along with creating revolutionary packaging, we're constantly looking for new ways to use less wood fiber in our packaging. One example is our Pineliner® technology, which produces corrugated boxes that require 17% less fiber yet remain as strong as conventional boxes.

We meet the need for virgin fiber through "sustainable forestry," which includes planting 50 million SuperTree™ seedlings every year. SuperTrees, developed through a process of natural selection, produce 30% more wood per acre over a 25-year growing period.

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To talk more, please call Bob Gordon or Lyn Bernstein at the International Paper Packaging Innovation Center, 1-800-577-9862.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Chairman*



BASE CLOSINGS, ROUND 4

MILITARY BASE CLOSINGS, which naturally follow sharp reductions in the size, strength and efficiency of our armed forces, inevitably bring charges of political bias and favoritism as motivating factors in the choices of bases to be closed.

The glittering prize always held out as a reward for suffering the political and economic pain caused by base closings is the amount of money (usually untotaled) that is expected to be saved. Last month's announcement of closings, the fourth round since the reduction of our military began in the late 1980s, was comparatively modest, since it is estimated that "only" 34,200 civilian jobs will be lost.

The Pentagon says that this so-called final round of closings will affect 146 installations and will "save" \$18 billion over the next 20 years. But in order to achieve this somewhat chimerical figure, we will have to spend nearly \$4 billion and have to cover the huge costs of cleaning up all of the hazardous waste and environmental damage at each base (a cost for which there is no estimate).

The Pentagon's list must now go before the Base Closure and Realignment Commission, which has until July 1 to approve, add to or subtract from the 146 named bases. Then the President must approve the list, after which Congress must either approve or disapprove it, but cannot change it.

One problem with this whole procedure is that, until recently, the only member who had been named and confirmed was the commission chairman, former Senator Alan Dixon. New York's two senators, Republican Alfonse D'Amato and Democrat Daniel Patrick Moynihan, still furious over a 1993 base closing in New York, had been blocking all other confirmations but relented at the last minute.

Inevitably, charges of politics in the selection process are raised. For example, California, which has the most electoral votes, came out quite well, losing fewer than 4,000 jobs—almost all of them at the Long Beach Naval Shipyard. Political watchers were immediately struck, however, by the fact that while Long Beach, which has long been regarded as one of the most cost-effective and efficient naval shipyards in the country, is to be closed, the Portsmouth, N.H.

Naval Shipyard, which has always finished last on every list of cost-effectiveness, is to remain open. Cynics were quick to point out that the New Hampshire primary is considered critical in the 1996 presidential campaign. The area hardest hit is Texas, followed by Missouri, Pennsylvania and Guam. (Guam's base has many advantages, but Guam has no electoral votes.) Oddly enough, a major expansion is proposed for the Washington Navy Yard as part of a plan to "bring more Federal employment to an economically depressed section of Southeast [Washington, D.C.]."

The Pentagon and the services do try to recommend base closings based upon "cumulative economic impact," which is supposed to take into account how hard states have been hit by previous closures. But where, you might ask, do military necessity and the possible future need for bases in the event of changes in the world situation fit in? Alas, apparently, nowhere. One of the key factors in determining this year's list was identifying which bases could be closed at the lowest cost, yielding the largest savings the earliest. Actually,

after all of the closing and cleanup costs (whatever they may be) are paid, not only for these bases but also for those in the 1988, 1991 and 1993 rounds, the Pentagon says there will be a savings of about \$6 billion a year, starting in the year 2001. In its predictably sanitized prose explaining the reasons for the cutbacks, the Pentagon says that its recommendations are "necessary to achieve the levels of readiness and modernization we need within the budget we have." But military effectiveness now and possible military necessity for the future should be the guiding criteria, not the dollar amounts saved by closing a base or the figures for how much employment can be created or lost.

One of the unintentionally funniest remarks accompanying this year's process was made by California Senator Barbara Boxer, a Democrat with a visceral hatred of all things involving military expenditures, who expressed outrage at the fact that there are any California bases at all on the list. "Even one base for [California] is a base too many," she said. It would be nice for national defense if sometimes she would vote for defense appropriations in that same spirit. ■



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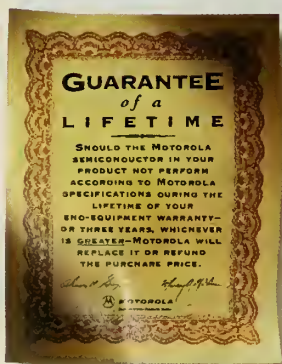
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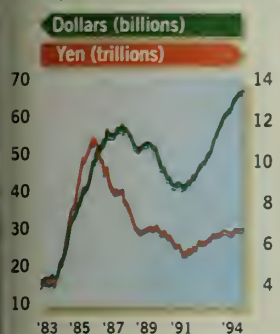
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Greenspan and the greenback

The dollar effect

U.S.-Japan merchandise trade deficit



Source: C.J. Lawrence

he weakening dollar will make the trade gap with Japan look worse and worse.

SHOULD ALAN GREENSPAN now defend the sinking American dollar? Carnegie-Mellon University's political economy professor Allan H. Meltzer says no.

"There's no sense at all for the Federal Reserve to raise rates to defend the dollar," says he.

Meltzer, a respected monetarist, agrees that higher rates would temporarily support the dollar, but at the expense of causing a recession. (Others believe U.S. rates would have to rise by perhaps 300 basis points to bolster the dollar.)

The outcome of a recession would inevitably be capital flowing out of

the U.S., weakening the dollar once again.

In any case, Meltzer points out, the dollar's weakness is concentrated against the Japanese yen and the German mark. Weighted against all the U.S.' trading partners, the dollar has been roughly stable since 1988. Recently it has been strengthening against the U.S.' two largest trading partners, Canada and Mexico.

Meltzer takes a long, historic view. His first explanation as to what ails the dollar is the fact that it is no longer the world's exclusive reserve currency; this reduces the world demand for dollars and hence their value. The yen and deutsche mark are taking up the slack.

Against the yen, Meltzer continues, half the dollar's long-term decline results from a historic difference in U.S./Japanese inflation rates, half from differences in average productivity. The outcome of these factors has been a higher return on capital in Japan than in the U.S.—although these countries' productivity and inflation have been converging. In addition, the

recent Kobe earthquake means that more Japanese savings will be needed to rebuild, leaving less Japanese savings available to finance the U.S. current accounts deficit.

"This [dollar weakness against the yen] may last a couple of years, but it's really a temporary phenomenon," he says.

The dollar's long-term decline against the mark is a similar story. But Meltzer notes that the runup in U.S. interest rates is nearing the top of the present cycle just as Germany is preparing to raise its rates—both countries' central bankers are trying to keep overall domestic growth below a level that might lead to serious inflation. The outcome will inevitably be some further downward pressure on the dollar.

Most of the dollar's problems are home-made. Meltzer believes that the immediate cause of much recent speculation against the dollar was the Clinton Administration's successful fight against the balanced budget amendment. "The signal is that something is wrong with domestic policy," says Meltzer. "What the dollar needs is a shift away from subsidizing consumption and from entitlements, to encouraging investment and savings."

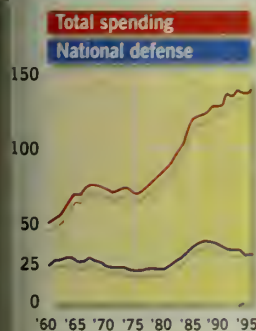
In the coming months, pressure will increase on Greenspan to support the greenback, especially as a weaker dollar makes it seem that the U.S. trade account gap is opening fast, against Japan in particular (*see chart*). There are, however, a couple of things that suggest that the Fed will be able to resist.

One, the Fed's \$1 billion or so intervention, ordered by the U.S. Treasury to support the dollar at the end of February, was a total waste of money. Two, the currency crisis has had little impact on the stock and bond markets. If this were to change, though, all bets are off.

Business to the rescue

Real growth

R&D spending (constant \$billions)



Source: Battelle; National Science Foundation

CORPORATE AMERICA is filling the research and development spending gap left by reduced government spending on defense R&D.

Total U.S. spending on R&D in 1995 is expected to total around \$182 billion, up from \$177 billion in 1994 and \$174 billion the year before. Of that, \$107 billion (59%) is expected to be funded by the private sector and 36% by the federal government. The fed's share is down from 47% in the mid-1980s.

After allowing for inflation, these figures represent a 1% in-

crease in planned R&D over 1994, reversing a downturn that began in 1992, says Jules J. Duga, a Battelle senior researcher (*see chart*).

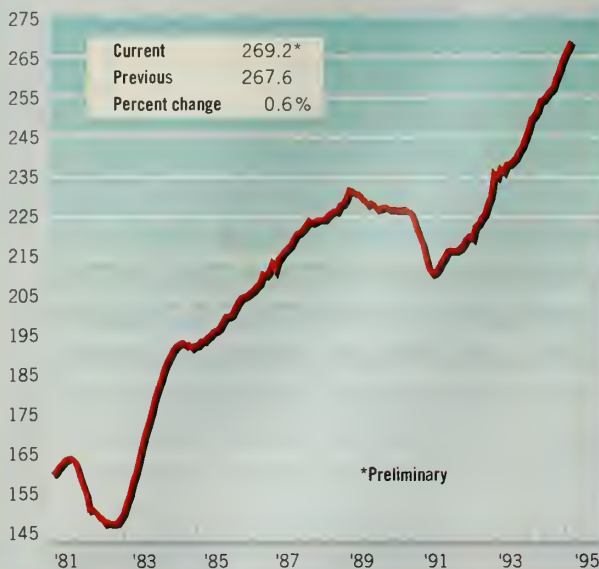
A lot now turns on how Congress disposes of government plans for R&D spending. A sizable chunk of defense R&D is already being diverted to pay for cleaning up military bases, especially those formerly used to make nuclear weapons.

Republicans in Congress are also taking aim at the \$450 million a year, or more, being spent to subsidize companies trying to convert defense technology to commercial use. One good thing: Despite its \$1.4 billion a year cost, there is general support in Congress for making permanent the R&D tax credit, which supports additions to company-funded R&D.

THE FORBES INDEX

BY SHLOMO Z. REIFMAN

The Forbes Index (1967=100)



John Ryding, senior economist at Bear, Stearns, does not buy the generally accepted wisdom that the Federal Reserve has almost finished pushing up interest rates. Instead, Ryding sees ample signs of strong economic growth. For instance, new orders for durable goods rose 0.6% in January, following a strong fourth quarter of 1994. The annualized growth in gross domestic product in the fourth quarter—4.6%—exceeded most estimates. Finally, Ryding thinks the dollar's slide against the Japanese yen and the German mark may force the Fed's hand.

Other key rates

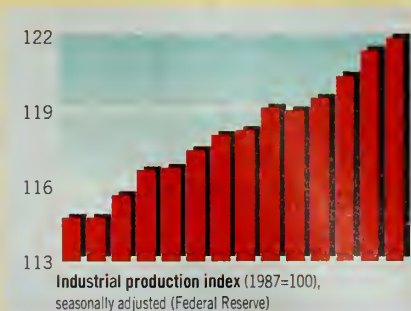
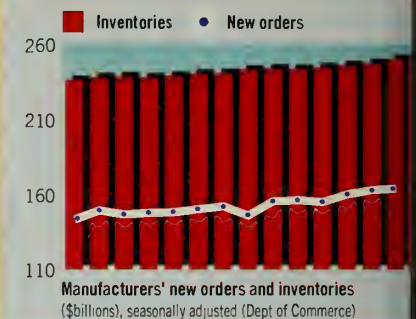
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1994 ¹	Ward's Automotive	-5.5%
Index of leading indicators Jan vs Dec	Dept of Commerce	0.0%
Trade balance ² 12 months ended Dec 1994	Dept of Commerce	-\$108 b
All-commodity producer price index ³ Jan vs Dec	Dept of Labor	0.7%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	4.6%
M2 ⁴ (3-month change)—annualized growth	Federal Reserve	1.3%

¹ U.S.-based manufacturers, excludes imports, as of 2/28/95. ² Total goods and services. ³ Wholesale goods. ⁴ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

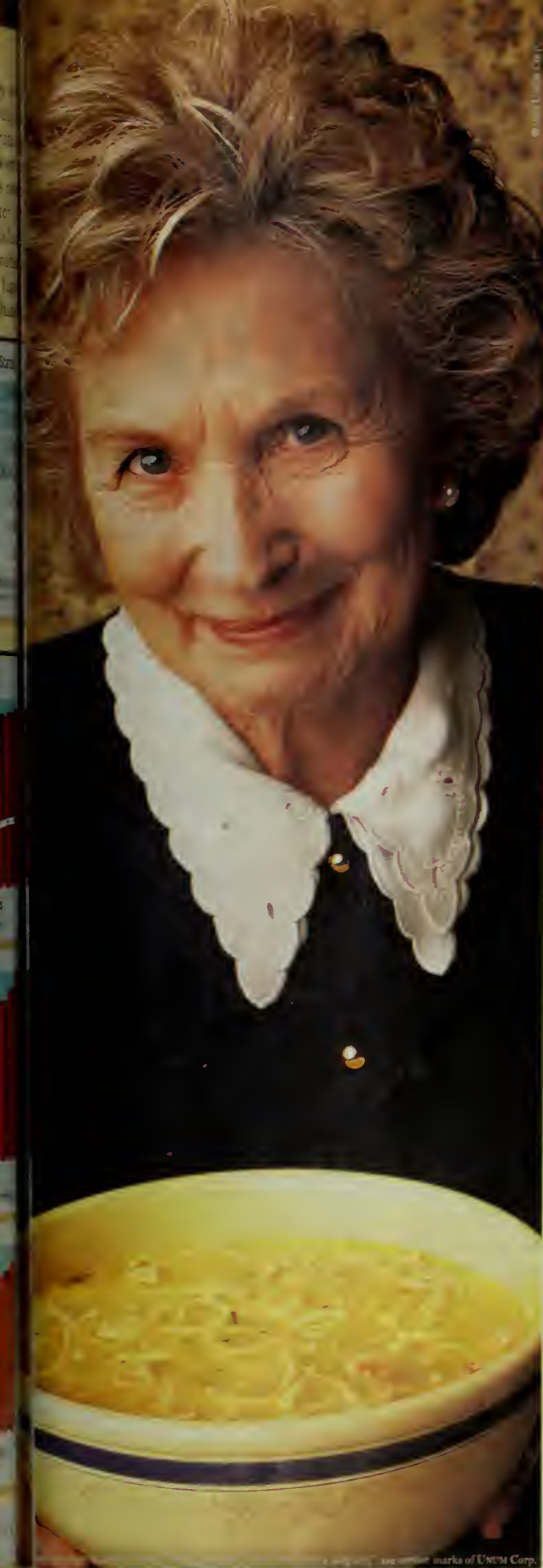
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented in these charts.



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UNUM
We see farther.

Peter G. makes a nice living out of supplying forbidden goods—and we don't mean drugs. Despite their government's frowns, Canadians love to watch U.S. television.

Culture cops

By Nina Munk

PETER G. owns an electronics store in the Toronto area. Every two or three weeks he drives his van an hour and a half south to Buffalo, N.Y., where he loads up on 18-inch RCA brand satellite dishes from a large electronics retailer. He pays \$699, plus tax, for a basic model, including the set-top receiver/decoder and remote control. On his return north he pays Canadian federal sales tax at the border, bringing his cost to \$808 per dish. Back home he'll sell the dishes for about \$1,100 each, plus \$150 for installation.

With ten dishes in his van, that's a nice \$4,420 profit for what amounts to a day's work. Peter is shopping for Toronto-area customers who want DirecTV, the new direct broadcast satellite service from GM Hughes Electronics that lets them watch U.S. channels like HBO, the Disney Channel and ESPN.

These channels are banned by the Canadian government, which deems them corrosive of Canadian culture. The Canadian culture cops have pressured El Segundo, Calif.-based DirecTV into refusing to switch on service for anyone with a Canadian address. Thomson Consumer Electronics has followed suit by cutting off deliveries of its RCA dishes to Canadian retailers.

But the law is fuzzy. It is perfectly

legal for Canadians to buy dishes—or anything else—in the U.S. To get around the switch-on and billing restrictions, Peter G. charges his customers \$75 a year for a U.S. address from which DirecTV's \$29.95 monthly bills are automatically forwarded. To prevent DirecTV from recognizing Canadian area codes, he installs a modem that redirects outgoing telephone calls through a U.S. number.

Peter G. is by no means the only gray marketer plying this trade. Dave Orrico, sales manager for Rosa's Superstores in upstate New York, reports that Rosa's in Niagara Falls, N.Y., just across the border from Niagara Falls, Ont., sells more 18-inch RCA dishes than the chain's five other stores combined. "We do see a lot of

Ontario [license] plates in our parking lot," Orrico says.

As many as 30,000 Canadians now receive DirecTV's 150 channels of crisp digital pictures with CD-quality sound, and the number grows. "I like the American stuff for the simple reason that I can watch what I want," explains William Vanderboer, who's hooked up to DirecTV in Fort Langley, B.C., just east of Vancouver.

But the Canadian politicians still think they are living in the days when all-wise governments decided what people could read and watch. The Canadian Radio-television & Telecommunications Commission has been mandated by the Canadian Parliament to "maintain and enhance" Canadian culture—whatever that is



The writer is a Canadian citizen.

For every U.S. channel that goes into the home, the CRTC says there must be at least one Canadian channel. Since the number of Canadian channels is limited, so too is the number of available U.S. channels. The result is a host of copycat made-in-Canada networks: something called MuchMusic in place of the forbidden MTV; and The Sports Network, or TSN, that's ESPN in all but name—and quality.

Another CRTC rule requires that at least 60% of a conventional Canadian channel's programming qualify as "Canadian content." A program qualifies as CanCon by receiving points, up to a maximum of ten, according to the nationality of the TV program's creative team. Six points or more and a program gets the CanCon seal of approval.

After operating in Canada for ten years, Nashville's Country Music Television channel learned firsthand of a rule that allows the CRTC to outlaw any non-Canadian TV service that competes with a Canadian service. In January Canadian officials kicked the channel off the airwaves to make way for a new, homegrown version called The Country Network.

What is this Canadian culture the government is trying to protect? A Canadian from Toronto has more in common with a Bostonian than with someone from Alberta. Outside Quebec—which is largely autonomous, anyhow—it's hard to pinpoint anything distinctly Canadian. Canadian okesters define a Canadian as an unarmored American with Medicare.

But don't try that on Ian Morrison, head of the chauvinistic lobby group Friends of Canadian Broadcasting. "A typical Canadian 10-year-old kid watches 900 hours of television a year, and more than 80% is American," says he. "That weakens the sense of belonging and identity that are the key factors in nationhood."

Is all this culture ruckus just a cover or protecting a few Canadian special interests? Of course. So, last month, after Canada shut down Nashville's Country Music Television, U.S. Trade Representative Mickey Kantor announced an investigation into Canada's denial of market access for U.S. programming services. But Peter G. couldn't care less. How else could he clear \$4,420 in a single day? ■

In fast food, PepsiCo is going to start acting more like McDonald's. But no, Pizza Hut and Taco Bell aren't going to serve hamburgers.

Leaner cuisine

By Howard Rudnitsky



Richard Baker/ASA

One of PepsiCo's Pizza Hut restaurants in London

A radical shift in strategy to change the financial menu.

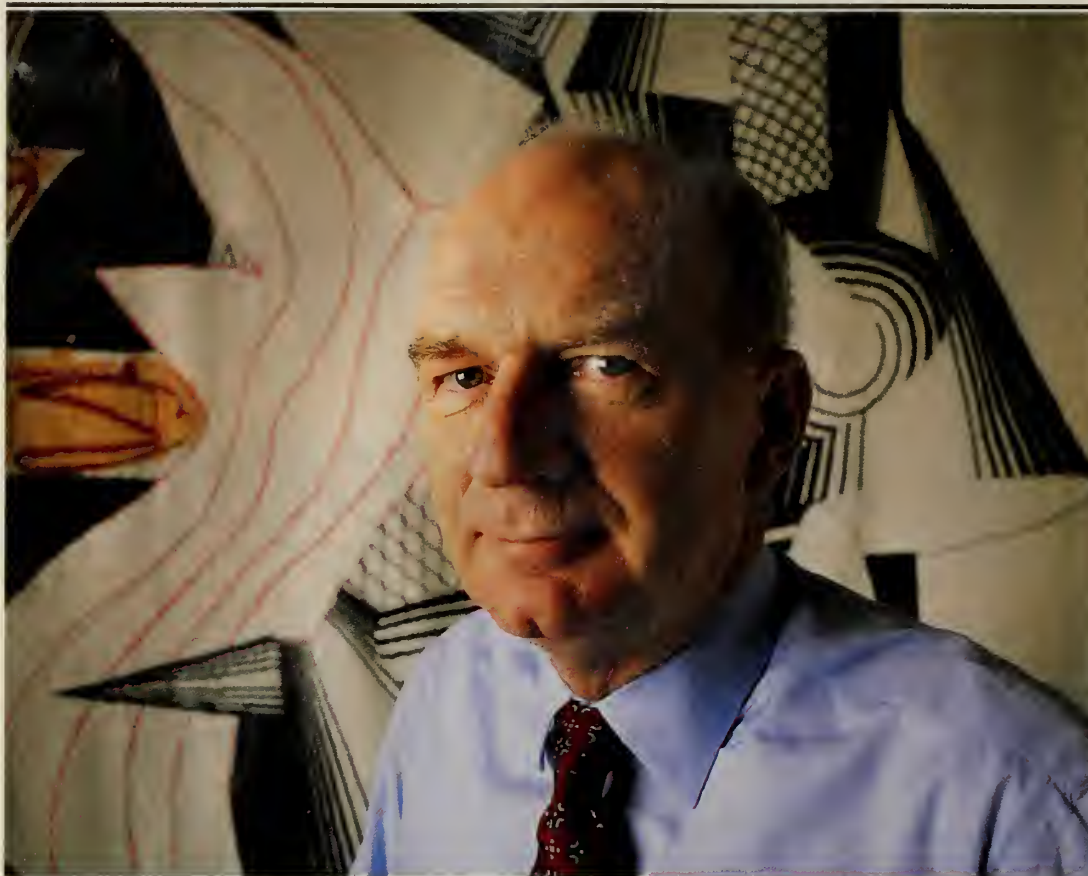
PEPSICO, INC. Chairman and Chief Executive Wayne Calloway addressed a group of Wall Street analysts last month, many of them down on PepsiCo. The press wasn't invited, but we got a fill-in. "I know a number of you are skeptical about restaurants [as] compared to beverages and snacks," Calloway orated, "and were so even before we slowed down this past year. Now you're outright concerned."

There is good reason for concern about PepsiCo's Pizza Hut, KFC and Taco Bell chains. The eateries' profitability has sagged of late. Despite a 12% gain in revenues, restaurant operating profits fell by 6%, to \$730 million, the first decline ever. That's a pretty meager return on revenues of \$10.5 billion. Fast-food rival McDonald's Corp., with \$2 billion less in revenues, had about three times as much in operating earnings.

Much of the recent trouble lies with

PepsiCo's 11,546 Pizza Huts, where sales in restaurants open at least one year dropped 6% last year, dragging profits down by 21%, to \$295 million. Apparently more pizza addicts are taking out or ordering out these days, rather than sitting down at their local Pizza Hut restaurant and ordering salad and drinks.

Calloway has dispatched his chief business doctor to work on the patient. Last November, he promoted Roger Enrico to chairman of PepsiCo's 26,800 Worldwide Restaurants division. Enrico is the chap who made Pepsi-Cola more competitive with Coca-Cola in retail food stores during the U.S. cola wars of the Eighties, and then went on to turn around Pepsi-



**PepsiCo Chairman
Wayne Calloway**
**A meeting
to allay
investors'
concerns.**

Co's Frito-Lay snack food operation.

At Enrico's prodding, Pizza Hut this spring is rolling out Stuffed Crust Pizza—a pizza with a crust stuffed with cheese. KFC had already brought out a Mega-Meal dinner—which includes, for example, a whole rotisserie chicken, chicken nuggets, cole slaw, mashed potatoes, macaroni, biscuits and a chocolate chip cake—filling for four people at just \$14.99.

This year KFC is adding a Mega-Meal-For-One and is testing chicken pot pie and chicken salad. These are

"If I were a long-term investor I would not hold back because of restaurants."

counterpunches to McDonald's and Burger King's "value meals." Pepsi's 5,846-outlet Taco Bell chain just launched its low fat Mexican food line, called "Border Lights." Calloway says that Border Lights has the potential to become "what diet sodas are to colas."

That's a pardonable bit of hyperbole, but despite all the chatter about more interesting and leaner menus, the fact is that PepsiCo has apparently decided to change strategy in its restaurant business. PepsiCo pours \$1 billion annually into capital expenditures for building and acquiring restaurants—an amount far in excess of its operating profits. In other words the restaurants consume more cash than they produce. McDonald's, by contrast, expands fast, too, and still generates more cash than it spends.

Here's the big difference between the two companies—and here's where PepsiCo's strategy is changing: Worldwide, PepsiCo owns and operates 60% of its restaurants; McDonald's franchises all but 20% of its restaurants and Wendy's International about 29%. A lot of PepsiCo's capital gets tied up in the costly equipment and decor of those owned restaurants.

Thus McDonald's has been able to use other people's money, whereas PepsiCo has had to use its own. But no more.

To expand abroad Calloway now is considering using more franchising

and joint ventures. "If we were to do that [more franchising] with our international restaurants, we would reduce our capital spending [on restaurants] by more than \$300 million," Calloway said. "That would more than double our annual free cash generation."

Eventually, PepsiCo may reduce its ownership of restaurants worldwide to perhaps 40%. If it does so, NatWest Securities analyst Michael Branca estimates that reduced capital spending on restaurants plus money from franchise sales would add \$1 billion to PepsiCo's cash flow after capital expenditures and dividends. This would be \$1 billion that the company could use to increase dividends, invest in the more profitable beverage and snack businesses—or buy back stock.

"If I were a long-term investor looking at PepsiCo, I would not hold back because of worry about restaurants," said Calloway, who himself owns 2 million shares worth \$77 million, and options on 3 million more. Calloway didn't say it, but he was as much as admitting: McDonald's did it right; we did it wrong.

Seventeen years ago Jake Burton produced a product that has rejuvenated the ski industry and is even making its mark on the American idiom.

The culture that Jake built

By Randall Lane

IF U.S. SKI RESORTS are doing fairly well these days, it isn't because of colder winters. It's because of snowboarders. Half surfing, half skiing, snowboarding is the fastest-growing sport in the U.S.—participation jumped 50% in 1993 alone, to 1.8 million, and that number is projected to double by the end of the decade. In 1990 fewer than 6% of U.S. ski-area lift tickets went to snowboarders; last winter it was 11%. And within five years the figure will very likely reach 27%, according to the National Sporting Goods Association.

This growth has Jake Burton talking about *when*, not *if*, snowboarding will be more popular than skiing. Unlike Abner Doubleday, the man often (if not entirely accurately) credited with the invention of baseball in 1839, 40-year-old Burton has become a very wealthy man from snowboarding, a sport he is largely responsible for creating over the past 15 years. His Burlington, Vt.-based Burton Snowboards Inc. controls at least 30% of the highly fragmented \$750 million (retail) snowboard industry.

Did we say sport? Snowboarding is actually more like a lifestyle. Inspired by southern California's surfing and skateboarding subcultures, snowboarding has its own clothing style (a baggy grunge look), attitude (iconoclastic—lots of earrings, dyed hair) and language (*see box, p. 46*). Around 80% of snowboarders are still under 25.

Skiers generally don't like snowboarders for the way they look and the way they scrape the snow off a slope, exposing the ice beneath. For years many ski resorts banned snow-

boarders or stuck them on unpopular parts of the hill. But the resorts can no longer afford this fight. The number of skier visits has been flat since 1979, and the skiing population is aging. About half of the 1,000 areas that were operating in 1975 are closed. Mount Snow initially banned snowboarders, but now that snowboarders buy an estimated 30% of Mount Snow's lift tickets, they get the run of the place. Nationwide, over 90% of all U.S. ski resorts now permit snowboarding, up from just 7% a decade ago. (The holdouts include Aspen Mountain, Park City, Alta and Taos.)



A Burton-sponsored rider "going fat" in Saas Fee, Switzerland
Snowboarders will soon buy one-quarter of all lift tickets.



Jake Burton and his wares
Hooked since age 14.

Jake Burton—whose full, but never used, name is Jake Burton Carpenter—got hooked on the concept when, at 14, he was given a Snurfer, a snow skateboard made by Brunswick. Throughout high school and college at New York University, he tinkered with different models, trying to turn the Snurfer concept from toy to serious recreational sport.

In 1977 he quit his job at a small Manhattan investment bank and got a bartending job in Stratton, Vt. The owner let Burton, then 23, fiddle in his workshop. By the next year he had designed the prototype of a snowboard. Using \$20,000, some of it inherited from his mother, Burton set up Burton Snowboards in a former electrician's store in Londonderry, Vt. and began making the 4-foot-long, 8-inch-wide wooden boards.

Burton quickly burned through his \$20,000 nest egg, but he was on the

leading edge of a powerful wave. Other pioneers like Tom Sims (whose Sims Sports is now the industry's number two), Chuck Barfoot and Bob Webber began designing and distributing their own models. Burton tirelessly promoted his product at ski and sporting goods trade shows. "I was afraid to go to the bathroom," says Burton. "I thought if I did, I might miss my only customer."

By 1981 Burton was out \$130,000, but the wave carried him forward. Orders for his boards climbed from the hundreds into the thousands. With backing from his wife's family, Burton added better bindings, a high-tech plastic base and steel edges to his boards, making them more maneuverable. By 1984 Burton's sales hit \$1 million.

One by one he convinced the ski area operators to open their hills to snowboarders. Once Stratton in Vermont and Breckenridge in Colorado caved in, it became increasingly difficult for other areas to hold out, especially with their traditional ski businesses flat or down.

Today privately held Burton Snowboards employs 250 and is probably worth well over \$100 million. But more impressive is the industry Jake Burton did so much to create. This year more than 300 companies peddled snowboard equipment, apparel and accessories at the industry trade show, compared with 90 companies two years ago. Industry sources figure sales will double, to \$1.5 billion at retail, by the end of the decade.

Consolidation is probably inevitable. "This is a textbook example of an early-stage, fast-growth market," says Roger Madison Jr., chairman of Nasdaq-listed Ride Snowboards (sales, \$25 million). "You're going to see a major shakeout. Instead of 100 snowboard companies, in five years you might have 12."

Burton says his company's size and profitability mean it will survive, but even he is of two minds about the latest snowboarding development: The president of the International Olympic Committee has requested that snowboarding be included in the 1998 Winter Games in Nagano, Japan. Now the separate international ski and snowboard associations are fighting over control of the events. Sighs Burton: "Politics has entered snowboarding. It's bad karma."

Snowboardspeak

LIKE CALIFORNIA'S surfers and Valley girls, the country's 1.8 million snowboarders have their own lingo, which is creeping into the American tongue. Below, a brief glossary:

Bonk: Banging off a nonsnow object.

Bro form: Discount equipment for friends of the manufacturer.

Fakie: Riding in a re-

verse stance.

Freshie: Fresh snow.

Going fat: Flying high or far off a jump.

Goofy-footed: People who ride the board with their right foot forward; most people lead with their left foot ("regular-footed").

Hit: Jump.

Jibber: A snowboarder who spends his time doing tricks in snowboard parks.

Pow Pow: Powder.

Sick: Scary or excellent—often both.

Stick a bit: "Going fat" and landing successfully.

Stiffy: Grabbing the board during a jump, with legs straight in front.

Switchstance: A "fakie" while doing a trick.

Toeside: Spinning counterclockwise during a trick, if you are "regular-footed."

Note, however, that the vibrant vernacular of snowboarders is chang-

ing constantly. HarperCollins was planning to publish a guidebook to West Coast snowboarding next winter called *Shred West*. "Shred" means to snowboard. But now the title is up in the air. "Shred is already passé among snowboarders," says co-author Sean Wagstaff. "It was a great title, but it's just not current anymore." The proper term is now "ride," according to Wagstaff. —R.L.

The capital markets think Russia will break the De Beers diamond cartel. De Beers' Harry Oppenheimer says not to worry.

The rough trade in rough stones

By Peter Fuhrman



LAST YEAR sales of rough uncut diamonds reached a record \$5 billion. Worldwide retail sales of diamond jewelry rose 15% to \$50 billion, also a record. The growth continues this year. Against such numbers, South Africa's De Beers, controlled by Harry Oppenheimer and his family, should be flying high. The world's largest diamond mining company, De Beers also owns the Central Selling Organization, the London-based cartel that markets most of the world's uncut

diamonds. Last year the CSO sold \$4.3 billion in rough diamonds and collected handling fees of around 12%, or \$500 million. Its only major expense is the \$185 million spent yearly on diamond advertising to consumers worldwide. Overall, De Beers' total pretax profit for 1994: \$695 million.

Yet the value of De Beers' equity has sagged by a third since last August. The company's \$7.9 billion market capitalization is only slightly higher than the value of its holdings in

publicly traded sister companies Anglo American Corp. and Minorco. The breakup value of De Beers' assets, by the company's own calculations, is now twice the current market value.

The problem is this: De Beers is locked in a battle with Russia for control of the world market for uncut diamonds. In 1990 Moscow signed a five-year contract with De Beers' Central Selling Organization. Under the deal, De Beers guaranteed the Russians a 26% share of all diamonds sold through the CSO (worth around \$1 billion a year in foreign exchange to Moscow), and advanced the government \$1 billion.

By 1993 the Russians were cheating. While collecting their \$1 billion a year from diamond sales through the CSO, the Russians were selling around 1.5 million carats in uncut diamonds, worth around \$350 million outside the cartel, directly to diamond cutters in Antwerp and Tel Aviv—a flagrant violation of the contract with De Beers. Last year the figure came to nearly \$750 million.

To maintain orderly pricing, the CSO ordered the major diamond producers outside Russia to cut or stockpile their production. Since the biggest non-Russian producer was De Beers itself, the CSO's order worked.

By 1993 the Russians cheated, selling diamonds directly to Antwerp and Tel Aviv.

Non-Russian producers sold just 85% of their total production last year through the CSO. The remainder has been stockpiled at the mines. Uncut diamond prices remained firm.

But what lies ahead? The De Beers/Moscow diamond marketing agreement signed in 1990 expires in December. The Russians are now demanding an increase in their share of CSO sales, to 33% from 26%, and the right to sell a large volume of stones directly to diamond dealers. In effect, this would give the Russians as much as half the total world market.

If De Beers doesn't give them what they want, the Russians claim they'll increase their sales outside the CSO

cartel. Postures Sergei Oulin, a senior official at Almazy Rossi-Sakha, the Moscow-based body that oversees all Russian diamond sales: "We have no plans to cut back our sales this year outside the De Beers channel."

The Russians, Sergei Oulin confirms, are also threatening to sell in Antwerp and Tel Aviv larger uncut gemstones. The larger stones—3 carats and up—are a major source of CSO's profits.

Is De Beers worried? Not much.

"I keep reading nowadays about how the diamond trade and De Beers with it is going to be destroyed, perhaps by the Russians, or as a result of new discoveries in Canada, or by God knows what," Harry Oppenheimer told De Beers employees in December as he retired, after 60 years, from De Beers' board. "Nothing of the sort is going to happen. The demand in the world for diamonds is stronger and more firmly established than it's ever been, and we have faced much greater risks in the past."

Privately, De Beers executives say Russia has a problem. It's running out of diamonds to sell. De Beers engineers are among the few Westerners to have actually visited the diamond mines in the northeastern Siberian Republic of Sakha. The mighty Mir mine is now flooded with salt brines, making commercial mining impossible. The other big Sakhan mine, Udachnaya, has been producing for almost 30 years; diminishing returns set in long ago. Overall, Russia's diamond production peaked a decade



Russia's once mighty Mir diamond mine

Now flooded and unworkable.

ago at 22 million carats. Last year's output was 12 million carats, only 25% of which are quality gemstones.

With Russian sales last year double Russia's total mine output, a large and growing percentage of Russia's diamonds are clearly coming out of stockpiles. De Beers insiders believe these stockpiles will be substantially depleted within five years. During this time, De Beers expects the worldwide diamond jewelry market to grow more than enough to absorb all Russian sales without weakening the Central Selling Organization price, and without forcing De Beers to increase

its own stockpiles. Peter Miller, respected London-based mining analyst with the Canadian brokerage house of Yorkton Securities, predicts prices for rough diamonds will increase by 40% during this period, as demand continues to roar ahead in South Korea, Thailand and Taiwan.

Doesn't Russia have many unexploited deposits of diamonds? Yes, but Russians need capital and technology to develop them. The most promising deposit, the Jubilee pipe near the old Udachnaya mine, needs at least \$200 million to complete the ore processing facilities. No Western mining company or bank is likely to risk this amount of capital until the Russians reach a new agreement with De Beers.

Here's one likely unfolding event: De Beers will play tough with the Russians for another few years, in essence forcing them to exhaust the stockpiles. Then De Beers will offer to assist the Russians in developing the Jubilee pipe, in return for real loyalty to the CSO cartel. The Jubilee diamonds would come to market in large volumes around 2005, at a time when many current mines in southern Africa and Australia will be winding down production.

In the Oppenheimers, the Russians have picked the wrong people to fight.

Diamonds into thin air

ALONG WITH dumping uncut diamonds in Antwerp and Tel Aviv, the Russian government is trying to develop its own diamond cutting and polishing business in the West.

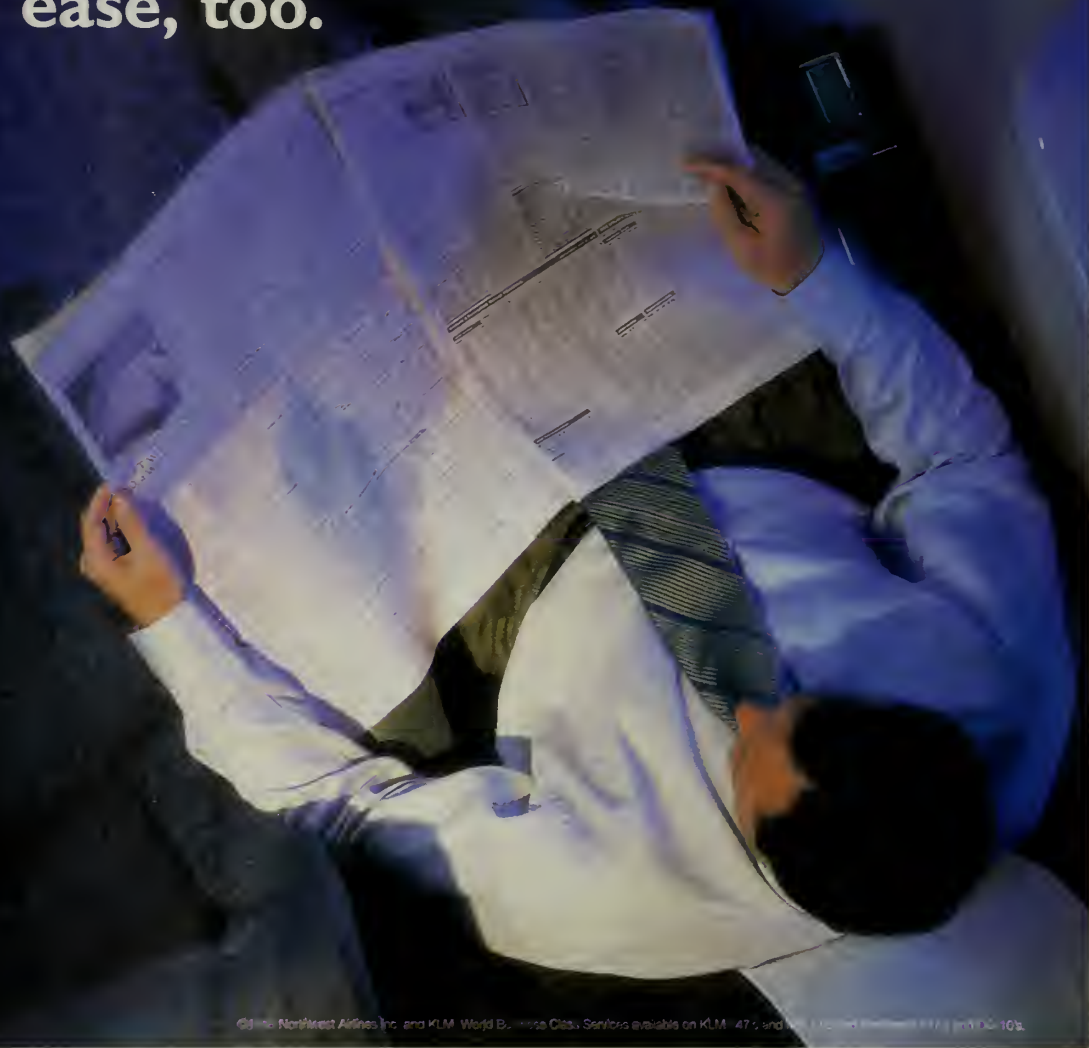
Last year the Russian government, together with an American partner, set up a diamond cutting company called Golden ADA in downtown San Francisco. Golden ADA imported at least \$88 million in uncut diamonds from official Russian stockpiles last year.

But according to officials at Almazy Rossi-Sakha, Russia's diamond mining and selling consortium, the money earned from the sale of these diamonds has disappeared without a trace—probably into the pockets of Russian bureaucrats who are in charge of minding the diamond stockpile back home.

Some of Russia's legislators are demanding an investigation.

—P.F.

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is comfortable,
the mind travels
at ease, too.**



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Best Buy and Circuit City now rule appliance/electronics retailing, and some of their big suppliers are worried.

"We will not be in a national chain"

By Marcia Berres

A DECADE AGO 41% of Whirlpool Corp.'s appliances were sold through Sears, Roebuck stores, under the Kenmore name. Then hard-charging new consumer electronics retail chains, notably Best Buy Co. and Circuit City Stores, went after Sears' customers. As Sears stumbled, so did Whirlpool.

Whirlpool learned a lesson: It's dangerous to rely too heavily on a single customer. Today, after Whirlpool acquisitions and expansion abroad, Sears accounts for about 19% of Whirlpool's sales. Now Whirlpool and other leading consumer electronics manufacturers are applying the lesson to \$4.3 billion (sales) Best Buy and \$5.1 billion Circuit City.

In November Whirlpool pulled its leading Whirlpool brand-name line from Best Buy. (Whirlpool still sells its lower-profit, value name, Roper, at Best Buy.) This followed General Electric's 1992 decision to stop sup-



Campo Electronics store in Birmingham, Ala.
It's at Campo, not at Best Buy.

plying its major appliances to the chain; GE now sells its refrigerators and dishwashers through local and regional merchants (*see table*).

Electronics maker Hitachi has stopped supplying Best Buy; so has

Kenwood. All this helps explain why Best Buy's stock, recently 21¼, is at half its 1994 high.

Circuit City, which provides a higher level of customer service than Best Buy, has been hit, too. In 1993 Mitsubishi Electronics America, one of Circuit City's top ten suppliers and the leading producer of big-screen television sets, left the chain. Circuit City claims it pulled the plug, as Mitsubishi wasn't competitive in technology and price. But Mitsubishi says the retailer wasn't providing adequate sales support. Before the split, Circuit City had been Mitsubishi's largest customer. Circuit City's stock, too, is well off its peak.

Leaving Circuit City doesn't appear to have hurt Mitsubishi. According to Jack Osborn, president of Mitsubishi Consumer Electronics America, Mitsubishi did \$608 million in sales in 1993, its last year with Circuit City. Last year it did \$739 million—without adding dealers but relying on local and regional retailers.

Osborn prefers to sell through smaller retailers for several reasons. He says they offer better service. He can educate their salesmen better on features of his big-ticket goods, and the regional and local merchants tend to live up to their promises to display Mitsubishi merchandise. Nor do smaller retailers have as much leverage as the national chains to push for lower wholesale prices. Osborn: "We will not be in a national chain."

The chains realize they have a problem on their hands and are working to redress it. Example: Last month Best Buy announced it will develop a new merchandising format for high-quality audio products. The reason, says Best Buy President Brad Anderson: "We could not land some of the products we wanted."

Not all manufacturers are troubled with the fast-growing national chains. "We have no problem with Best Buy and Circuit City," says Frank McCann, spokesman for Thomson Consumer Electronics, maker of RCA televisions and a leading supplier to both. But for every Thomson there's a Whirlpool or Mitsubishi that has shifted more business to smaller merchants. As Mitsubishi's Osborn put it: "No one wants to become hostage to a single customer."

Divide and conquer

Company headquarters	Number of stores	Sales (\$mil)	Net income (\$mil)	Return on equity	Debt/capital	Recent price	P/E
Best Buy/Minnesota	204	\$4,325.6	\$51.0%	16.0%	67.3%	21¼	18
Circuit City/Virginia	348	5,079.4	151.9	20.2	39.3	22%	14
Campo Electronics/Louisiana	27	213.2	4.7	11.7	20.0	9¼	10
The Good Guys/California	60	789.2	15.1	12.3	0	11½	10
Sun Television/Ohio	44	697.1	18.2	13.4	17.6	8%	8
Tops Appliance/New Jersey	8	461.5	0.2	1.0	66.7	4%	158

Figures are latest 12 months, ended Nov. 30 or Dec. 31, except for Tops Appliance's debt/capital, which is as of Sept. 27.

If consumer electronics manufacturers continue to pull back from the national retail chains, the regional chains stand to benefit.

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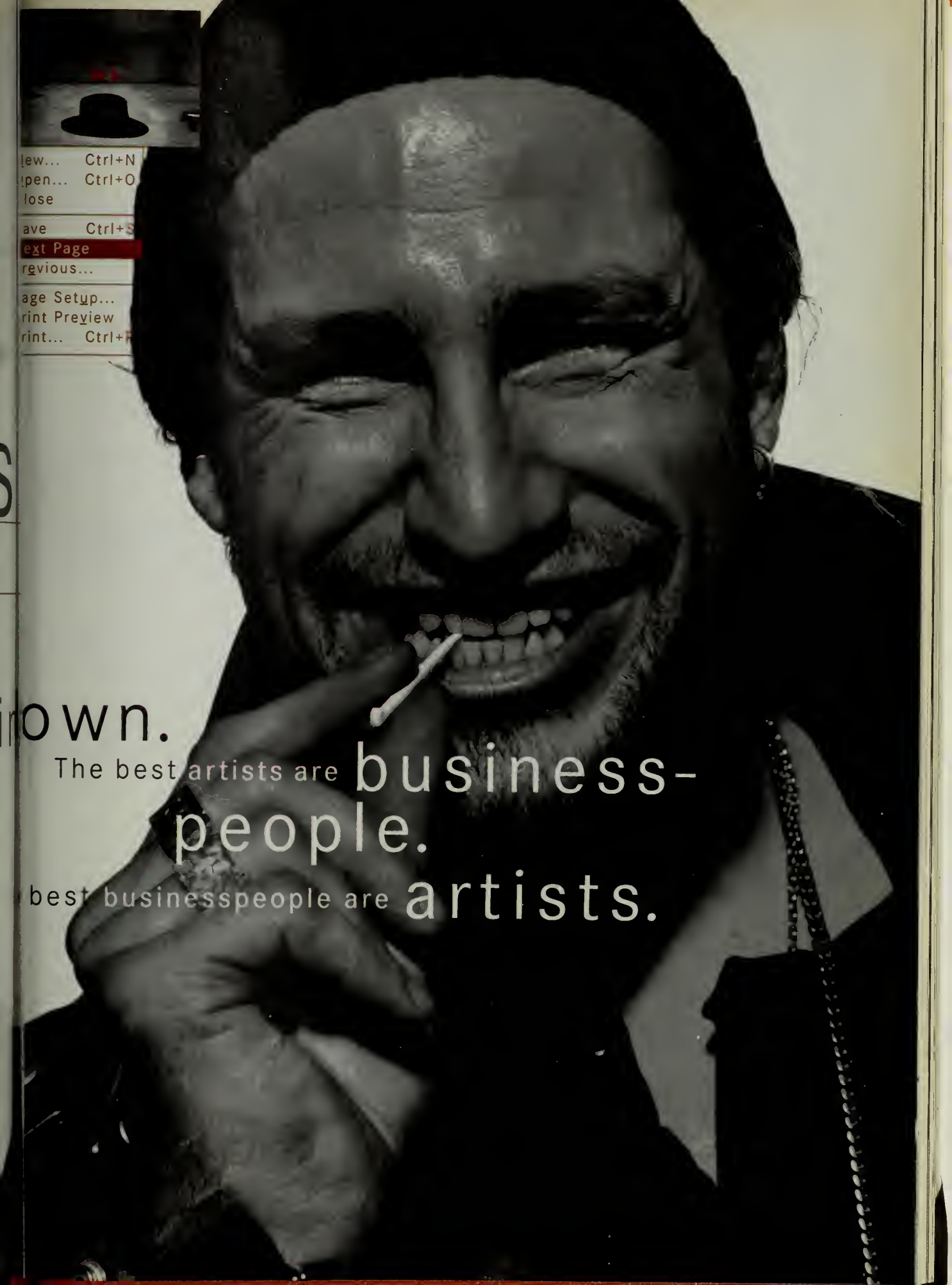
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Rock stars

and CEO's are starting to dress alike. There is a

revolution
going on.

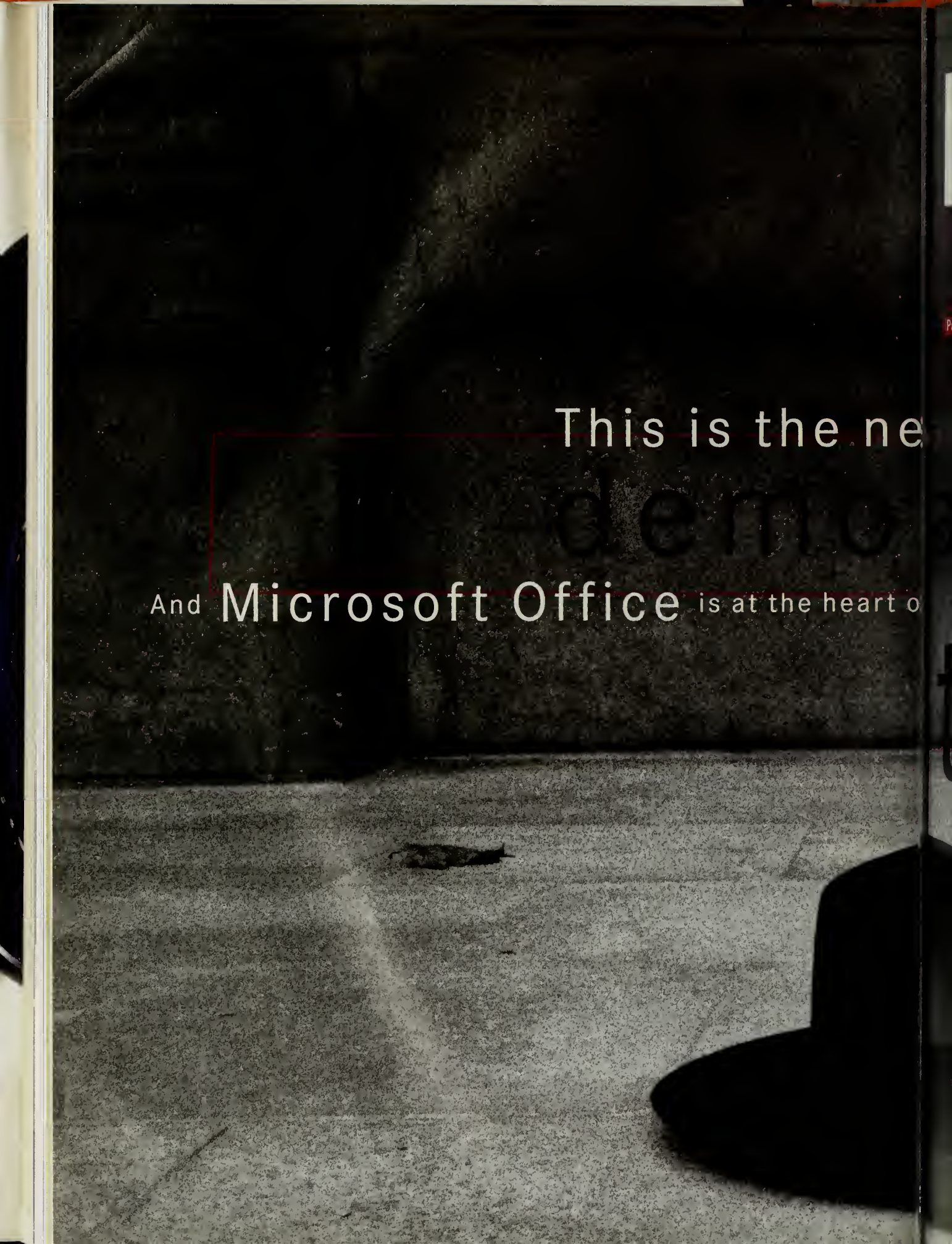
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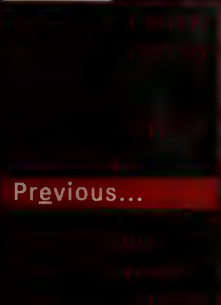
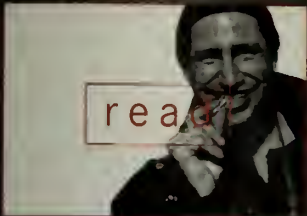
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Passed over for a big promotion at Consolidated Freightways, Donald Moffitt quit and went sailing. Then his old boss called.

Full circle

By Kate Bohner Lewis

IN THE SUMMER OF 1990 Donald Moffitt was 58 and in early retirement. While cruising his 44-foot sloop *White Bear* around British Columbia's Gulf Islands, he received a distress call on the boat's radiophone. It was his former boss, Consolidated Freightways, Inc.'s chairman, Raymond O'Brien. Would Moffitt please come home? O'Brien begged.

Moffitt smiled. His career was suddenly coming full circle. He had spent 33 years at Consolidated, the last 10 as the company's top financial officer. But in 1988 O'Brien promoted Moffitt's rival, Lary Scott, to Consolidated's number one spot. Passed over, Moffitt quit. After spending most of the next 2 years rebuilding Circle Express, a troubled regional trucker, he retired to his sailboat.

And now O'Brien wanted him back. Moffitt set *White Bear's* course for Victoria, B.C. and flew immediately to San Francisco.

Arriving at Consolidated's headquarters in Palo Alto still in his sailing gear, he listened as O'Brien filled him in on the grim news. Consolidated's core trucking business was eking out a profit.

But Emery Worldwide, an overnight delivery service and cargo company that Consolidated acquired in 1989, had consumed all of Consolidated's cash and was now deep in the red. Chemical Bank was demanding payment of \$85 million in fees on a promised \$900 million interim loan. Consolidated, O'Brien feared, was about to default on its outstanding commercial paper.

"The more I heard, the worse it got," Moffitt recalls. "I'd left Consolidated with \$300 million in cash on the books, and boom! We were only a heartbeat away from the B-word."

Over the next 72 hours O'Brien

persuaded Moffitt to take his old job back. A month later Moffitt's old nemesis, Lary Scott, was gone, and Moffitt was named president and chief executive officer.

Moffitt's first order of business was Consolidated's ability to meet its commercial paper obligations. The

Chemical loan, he figured, would hurt the company far more than help it. "They [Chemical] were structuring a loan we couldn't possibly get out from under," says Moffitt.

After sending the Chemical bankers packing, he decided Consolidated could weather its commercial paper problems with a \$75 million credit line. He secured the line from Bank of America on favorable terms after pitting BofA against Citibank for the business.

Breathing easier, Moffitt turned to Emery Worldwide. Purchased for \$489 million, the \$1.2 billion (revenues) unit was losing money at a rate of \$97 million a year. The diagnosis was simple: Fixed costs were too high, cargo volumes too low. Federal Express, for example, picked up more



envelopes at New York's World Trade Center each day than Emery picked up in all of New York State. Emery paid \$16 per pound, on average, to pick up and deliver an envelope for which it charged just \$6 a pound.

"I think [the board] thought I would dump [Emery]," says Moffitt. Instead, he and Emery Chief Executive Roger Curry took Emery out of the letter-mail and small-package segments of the overnight delivery business where Federal Express and United Parcel Service were the leaders. They concentrated their resources on overnight delivery of mid- and heavy-weight freight, packages weighing over 70 pounds.

To build volume, Moffitt and Curry introduced an incentive program that paid big bonuses to salespeople

who brought in new clients. In the first two years of the program revenues increased 37%. Last year some \$20 million in profits were split among Emery's nonunion workers and management. Average payout: \$3,421 per employee. "People respond when they know they'll get a piece of the action," says Moffitt.

Not everyone got a piece. To increase Emery's operating leverage, Moffitt and Curry told each of Emery's 50 managers to fire staff, shrink terminal space or whatever else was necessary to reduce expenses. Within 18 months this cut more than 2,000 of Emery's employees (total employment is now 8,000) and carved over \$200 million out of Emery's cost structure.

The medicine took. Last year

Restoring Consolidated's unionized trucking operation to health was—and still is—a tall order. Since 1988 Consolidated's long-haul profit margins have dropped from 6.5% to 1.5% in 1993. Despite a strong economy, the business lost \$46 million last year, thanks largely to a 24-day Teamsters strike last April.

The fundamental problem is this: Regional nonunion carriers like Viking Freight have taken business away from big unionized carriers like Consolidated largely because the nonunion outfits can use rail transport to make their route systems more efficient. Consolidated would like to do this, too. But the Teamsters' master contract has limited the amount of unionized truckers' freight that can be handled by rail to just 8%.

But things are looking up. Last June the Teamsters signed a new four-year master contract that will allow Consolidated to move up to 28% of its freight on the rails. Meanwhile, Moffitt is expanding Consolidated's own nonunion regional carrier, Con-Way Transportation Services. Started in 1983, Con-Way is a \$1 billion (revenues) operation that earned \$111 million in operating profits last year.

While Consolidated's unionized trucking operation isn't out of the woods, it's on the right track. Wall Street analysts estimate the unit earned over \$2 million in January, its first monthly profit since October.

Overall, Wall Street analysts think Consolidated will earn \$2.20 a share (\$105 million) this year, up from \$1 a share last year and a string of losses in 1990, 1991 and 1992. Revenues should rise by 8% to 10%, to around \$5 billion. In December Consolidated's board expressed its optimism by initiating a 40-cent-a-year dividend, the first payout since 1990. Recently at 23%, Consolidated's stock has more than doubled since Moffitt rejoined the company. His personal holding has appreciated by some \$5 million.

Whatever happened to Moffitt's old rival, Lary Scott? For almost two years he has been trying to turn around another big trucker, Carolina Freight, so far without much success. Its stock has dropped by half since Scott signed on. Moffitt grins broadly at the irony.

Chief Executive Donald Moffitt (left) and Emery turnaround artist Roger Curry
Says Moffitt:
"I'd left Consolidated with \$300 million in cash on the books, and boom! We were only a heartbeat away from the B-word."



Emery's operating profits rose to \$77 million—a \$205 million swing from when Moffitt rejoined his old company. After signing an \$880 million, ten-year contract with the United States Postal Service last year, Emery now has 24% of the over-70-pound freight market. Its nearest rival, Burlington Air Express, has a 13% share.

United Parcel Service and Federal Express have both announced plans to deliver heavier freight by air, but now they'll be trying to catch Emery. Demonstrating its new muscle, Emery announced a 7.2% general rate increase last October.

With Emery back in the black, Moffitt began tackling the problems in Consolidated Freightways' \$2.1 billion (revenues) long-haul-trucking business. For help he named Roger Curry president of the trucking division last July. "That was his reward for fixing up Emery," laughs Moffitt.

In the spirit of Jonathan Swift,
here's another way of dealing with the peso crisis.

A Modest (?) Proposal

By Peter Brimelow

WHILE WAVING FAREWELL to \$20 billion of U.S. taxpayers' money as it starts its perilous trip South of the Border under the terms of the Clinton Administration's Mexican peso bailout, we can't help pondering this

Modest Proposal:

Wouldn't it be simpler to go back to one of the early versions of the 1853 Gadsden Purchase—and just buy Baja California? (See map.)

James Gadsden was sent to Mexico

by President Franklin Pierce, charged with buying enough land for a transcontinental railroad route around the Rockies. But American and Mexican negotiators also discussed more sweeping alternatives that suggest Baja California was then valued at around \$10 million.

That \$10 million adds up to about \$180 million in today's purchasing power. And it represented a proportion of U.S. 1853 GDP that by a happy coincidence is now equivalent to . . . \$23 billion!

With more than 1,600 miles of coastline, Baja California is a real estate developer's dream. They could really create value. One way or another the desert might be made to bloom—or at least generate healthy tax revenues.

Only about 2 million Mexicans live in Baja, mostly in three border-area cities. And in 1990 there were well over 4.3 million Mexicans living in the U.S., legally and illegally. About 250,000 more settle here each year.

So we're getting the Mexicans. And parting with the money. How about the land?

Linda Chavez, the former Reagan Administration official who now heads Washington's Center for Equal Opportunity, belongs to one of those Mexican families that never came to the U.S.—the U.S. came to them. when it acquired northern New Mexico. "The best thing that ever happened to us," she says flatly.

And Chavez guesses that Baja Californians would agree, if they ever got a chance to vote on joining the U.S. And she notes that the Colorado River would be a better barrier against illegal immigration.

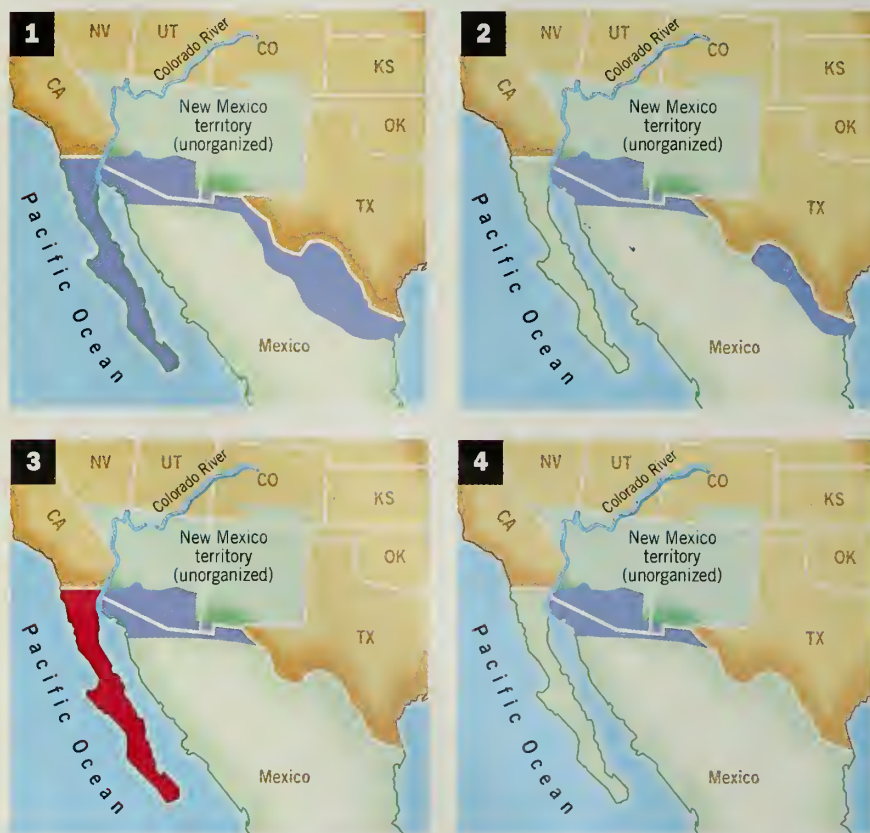
Asks Chavez: "Why not?"

Purchases, of course, are out of fashion nowadays. But in the 19th century, the U.S. peacefully acquired the Mississippi Valley, Florida, Alaska. . . . And recently, in 1992, Walter Russell Mead of New York's New School caused something of a stir by proposing in *World Policy Journal* that the U.S. bid for Siberia.

Intolerable insult to a sovereign nation? More so than micromanaging its finances and hypotheating its oil revenues, as the Clinton Administration expects to do to Mexico?

Well, we just thought we'd ask. ■

Why not?



In 1853 James Gadsden made four proposals for Mexican territory: offer (1) \$50 million; (2) \$35 million; (3) \$30 million; (4) \$20 million. In the end the Mexicans accepted \$15 million for what is substantially proposal 4. Congress then niggled the amount down to \$10 million, provoking the Mexicans to withdraw the areas now south of the present border.

Source: *Border. The U.S.-Mexico Line*, by Leon C. Metz (Mangan Books, 1989).

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If Social Security were run by private business people, they would have been locked up long ago.

A legal con game

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

EVEN THE MOST gung ho budget-cutters in Washington make it a point to say that Social Security is off-limits. From a purely political point of view, it is easy to see why. People who are retired and dependent for at least part of their support (or amenities) on their Social Security checks would of course be outraged and up in arms if the federal government reneged on its promises and pulled the rug out from under them.

While this is the strongest argument against cutting Social Security, it is also the most transient argument. If we are trapped by the promises of the past, we can at least stop making the same promises for the future. Assure all those currently receiving Social Security checks that they will not lose one red cent. Say it loud and clear. Say it on every appropriate occasion and on a few inappropriate ones.

Give the same assurances to those within a decade of their eligibility for Social Security. But there is no reason to continue forever subsidizing everyone who reaches a certain age—and it is certainly unconscionable to do so with a regressive tax on the young, who generally have lower incomes and fewer assets than their elders, whom they are subsidizing.

If there are elderly people who are needy, let them be subsidized out of general revenues, from which a transi-

tional phaseout of Social Security could also be financed.

Among those who want Social Security to be left alone, Senator Daniel Patrick Moynihan makes the case as well as it can be made when he says that “welfare is not the idea behind Social Security,” that it was “envisioned from the beginning as a social-insurance program” and that “contributory insurance” is not the same thing as an “entitlement.” But even this strongest case cannot withstand scrutiny.

What does it matter what Social Security was envisioned as? I may envision myself as another Rudolf Nureyev, but that will not stop others from saying that I am a klutz on the dance floor.

As for the argument that people who have put contributions in are not welfare recipients when they take money out, that of course all depends on how much they put in and how much they take out. I have been faithfully putting money into a local bank for more than a decade, but if I present the teller with a withdrawal slip for a million dollars, the bank is not about to honor it.

Even if I were as eloquent as Senator Moynihan, it would remain stubbornly unconvinced and remind me that I never put a million in.

The clincher for those who argue like Senator Moynihan is that Social Security is currently running a surplus and that its reserve is expected to reach \$3 trillion by the year 2020. Even if we assume that foresight, like hindsight, is 20/20, there is still a lot less to this argument than meets the eye.

All of us can run a surplus, if we are allowed to count all our assets and ignore enough of our liabilities. No insurance company can make up its own accounting rules, ignore its accrued liabilities represented by the policies it has promised to pay off, and say that it has a surplus whenever

the money it takes in during the morning covers the checks it writes in the afternoon.

As for the assets of the Social Security fund, \$3 trillion is certainly a lot of money—but not if you owe \$4 trillion.

The words “insurance” and “contribution”—as in the Federal Insurance Contributions Act (FICA)—are among the political strokes of genius which have made Social Security sacrosanct. Like so much political genius, these words represent pure fraud.

The word “insurance” serves the political purpose of removing the onus of its being a handout like welfare or other entitlement programs. But a genuine insurance system col-

The Social Security system is not insurance but a pyramid scheme.

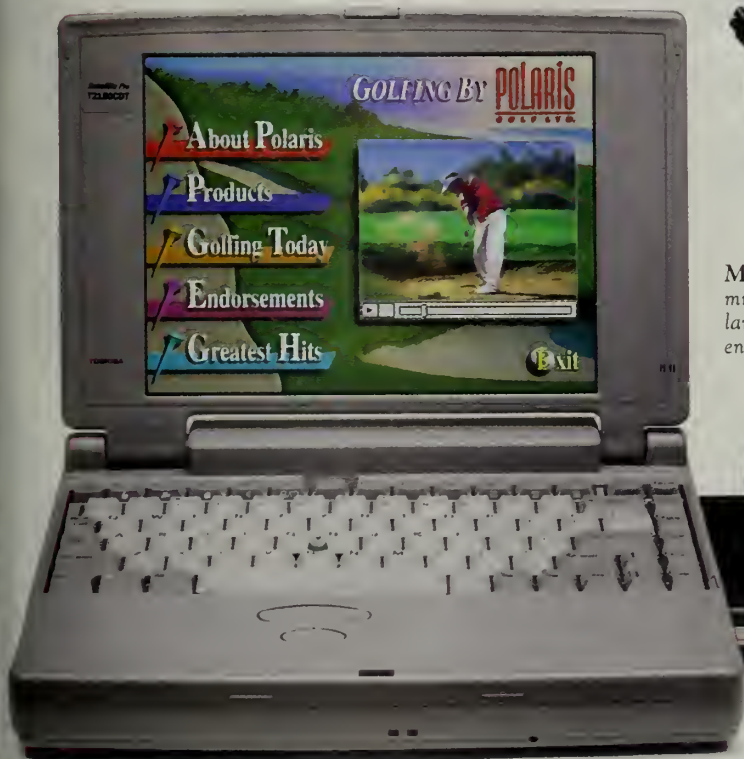
lects money and invests it in assets which cover its liabilities. The Social Security system's assets have never covered its liabilities. It is not insurance but a pyramid scheme in which those who enrolled earlier get what is paid in by those who enroll later.

This worked like a charm as long as the pyramid kept expanding, with the baby boomers' contributions being used to support the smaller generation before it. Not only could the first generation receive back far more than it put in, all sorts of new goodies could be added to the Social Security program by a bountiful Congress. But when the baby boomers themselves reach their retirement age, the system will be faced with the same financial problems as other pyramid schemes when the pyramid stops growing.

Senator Moynihan says that any future problems can be taken care of if we just “bump up the contribution rate a little.” But why is such “bumping up” even necessary, if all the talk about a “surplus” and about people getting back what they contributed is not just political smoke and mirrors?

If a system is said to be sound because it can always be rescued later with more tax money, then the same could have been said of the savings and loan industry before its debacle.

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Kim and Sue Fowler have this in common with Ted Turner: They're among the growing number of Americans who are getting into raising buffalo.

Bison meisters

By Robert La Franco

KIM FOWLER is showing a guest 35 buffalo grazing passively on tall grass on his 160-acre ranch in central Oregon. Spooked by the visitor, a 1,200-pound bull bison bursts into a charge, crashing through a battered barbed-wire fence and leaping into the next field. The other bison thunder after him.

"They get a little nervous around strangers," sighs Fowler as he scoots his guest into his pickup truck and begins pursuing his wayward herd.

Fowler, 35, is an urban dropout. Three years ago he and his wife Sue were working 18-hour days at their KF Construction, a little construction firm in San Diego. When the bottom fell out of southern California's real estate market, they shut down their business and moved to Bend, Ore., Fowler's hometown. Their principal possessions: a \$1 million cash nest egg and dreams of a serene country life raising exotic animals.

The Fowlers considered emus, ostriches, llamas and elk, but concluded that there was no active retail market for the meat.

Then they discovered the virtues of buffalo. Bison meat, they found, tastes richer than beef but has 79% less fat, making it an interesting product for aging, health-conscious consumers. Moreover, buffalo are wild animals whose gene pool still bubbles with natural instinct. That makes them tough to control but easy to raise. Buffalo pace their eating, can survive winter storms without shelter, require very little veterinary care and don't need any special kind of feed.

Still another advantage: The market for bison meat is in its infancy, and demand currently outstrips supply.

The Fowlers are not alone. The National Bison Association has 2,300 members today, compared with the



several hundred members two national bison organizations had ten years ago. Most of the ranchers have herds of fewer than 100 animals.

There are only a handful of big players in the market, but their presence dominates the business. The largest player is media tycoon Ted Turner, whose ranches are home to more than 7,500 bison. One of the

oldest bison ranches, the Durhan Ranch in Wyoming owned by Ric and Bud Flocchini, has over 4,000 animals, and Willis McFarlane's Dever Buffalo Co. has 1,000.

"We'll need to more than double the number of animals there are before we can start marketing them nationally," says Robert Dineen, meatpacker who heads the Nation

The Fowlers' brood
Lean meat for a
health-conscious
society.



Photographs by Robin McArthur

Sue and Kim
Fowler with
their buffalo
herd dog, Hank
**They gave up
18-hour days to
raise bison in
the Northwest.
The returns on
capital aren't
great but Fowler
says: "I virtually
don't work."**

Currently most bison meat is sold in the West by ranchers directly to private parties who buy in bulk quantities averaging \$400 or so for about 110 pounds of meat. But there are a growing number of restaurants and supermarkets, East and West, that now stock bison steak and bison burger as specialty products. The steaks generally retail at \$23 to \$29 a pound for a tenderloin; ground bison goes for around \$5 a pound.

Reflecting these prices and margins, bison are rising in value. In January, at the NBA's annual auction, bulls sold at an average price of \$3,721, up from \$2,206 in 1994. Cows, which become fertile at age two and can produce calves for 20 years, cost around \$3,800.

Attracted by all these numbers, the Fowlers started their Skyline Bison Ranch in December 1993. Getting the business going wasn't cheap. Their land (and a 1,400-square-foot home) cost \$325,000. They shelled out another \$100,000 for 35 animals, plus fencing and assorted handling equipment. Annual operating expenses—for water, hay and the like—total some \$12,000.

Income? Last year Skyline had its first slaughter (four head) and through local newspaper ads sold about \$8,500 worth of meat to local

buyers.

Next year they expect to earn another \$15,000 selling 15 calves (the herd at its current size can produce 15 a year) and around \$800 for the wool the animals shed in the summer and the skulls and hides of slaughtered animals.

Bottom line: Last year Skyline Bison's operating loss came to about \$3,000. But Fowler expects to be profitable by 1997, four years after starting the business; the National Bison Association says this gestation period is typical. If he keeps his herd at its current size, Fowler expects to generate an annual income of about \$30,000—not much of a return on his investment, but then high returns are not what attracted Fowler to the business in the first place. "You can't buy peace of mind," he says.

Peace of mind, when your herd might well stampede at the sight of a stranger?

Abnormal behavior, laughs Fowler. "People come by all the time to see the animals and ask about the business," he says. "They always ask if it's hard work, but the reason we like these animals is there is almost no maintenance. I virtually don't work." (For information on buffalo ranching, the National Bison Association's number is 303-292-2833.)

Bison Association's annual auction. "Right now we slaughter just 10,000 head a year. If we marketed all that on the East Coast, there just wouldn't be enough to go around."

The ranchers get over \$2 a pound or bison, more than twice the price cattle ranchers get for beef. But here's plenty of fat in the retail margins, if not in the meat.

A young man made mistakes but kept dreaming, and his father kept bankrolling the dreams. That sums up Supreme International's smashing rag trade success.

Winning team

By Matt Walsh

THIRTY-FOUR YEARS AGO George Feldenkreis, then a 25-year-old lawyer in Havana, decided Cuba didn't have much of a future with Fidel Castro in charge. He fled the island with his pregnant wife, Dorita, their 1-year-old son, Oscar, and \$700.

Settling in Miami Beach, Feldenkreis looked for new work. The law? Obtaining his U.S. legal credentials would take too long and cost too much. So instead Feldenkreis decided to do what his father had done back in Cuba. He became an agent for foreign manufacturers—importing things like low-priced auto parts and flatware from Japan, window glass from Portugal for doors.

After a few years Feldenkreis decided he'd rather make and sell his own goods than work on commission for others. With his brother he set up a little company called Supreme International, to import clothing.

From that little apparel company considerable private wealth has grown. In the fiscal year that ended Jan. 31, Supreme's revenues hit an estimated \$85 million; earnings, nearly \$4 million. The Feldenkreis family's 66% stake in the company is currently worth \$28 million.

This was not an overnight success. In its early days Supreme imported parochial school uniforms and *guayaberas*, the loose-fitting, pleated shirts

popular among Hispanic men. Later Feldenkreis imported private-label men's slacks and knit shirts.

By 1980 Supreme was still tiny—sales that year were \$5 million, profits a bit more than \$50,000. But its fortunes were about to change. George Feldenkreis' son Oscar had just turned 20 and was chomping at the bit to join his father in the business.

"Oscar is the one with the foresight into fashion," says Isaac Zelcer, president of Isaco International Corp., a Miami-based men's apparel maker. "He knows what his customer is going to be able to sell to the consumer."



Supreme International's Oscar and George Feldenkreis

"They don't try to go into the other's area of expertise."

Oscar's talents were none too obvious during his first few years on the job. While his father looked after Supreme's finances and manufacturing operations, Oscar was determined to establish Supreme's own brands. During his first year he introduced Italian-style dress pants. Made in Korea and marketed under the name Feldini, the well-made pants were priced to retail at \$65 a pair, about half the price of Italian slacks. But Feldini was not a huge success. In five years the brand grew to about \$5 million in sales. Meanwhile, Oscar's two new brands of sport shirts—the Gianni Abozzi and Simultaneous lines—weren't big hits. The Gianni Abozzi line was discontinued.

What went wrong? "We didn't have a theme or direction," Oscar replies. He adds: "You have to develop a brand or a name that is easy for the consumer to say."

Feldenkreis refused to give up his dreams of creating brand names for Supreme, and his father continued to bankroll the young man's dreams. Their perseverance paid off in 1989.

With the menswear market beginning to shift to more casual, "forgiving look" clothes (FORBES, Dec. 5, 1994), Oscar prepared to introduce colorfully printed silk and rayon sport shirts. But, remembering the disappointments with the Feldini slacks and Abozzi shirts, Oscar and Supreme's designers brainstormed for a theme. Feldenkreis recalls: "We were kicking around some ideas on a brand that would be part of what was happening at the time—recycling, natural fibers, the environment." Out of that came a label that was both descriptive and easy to say: Natural Issue.

It was a hit. Targeted at Middle American males who want the Tommy Hilfiger look but not the \$60 price,

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the shirts retailed at \$26. In their first year, they pushed Supreme's sales to \$18 million, from \$15.5 million.

Figuring that the forgiving look trend was no fluke, the following year Oscar introduced Natural Issue 100%-cotton printed knit shirts.

This was risky. It would put Supreme up against much bigger brands like Dockers and Izod. But they caught on, big. For the five years ended Jan. 31, sales of Natural Issue labeled shirts have grown from nothing to \$35 million and now account for 41% of Supreme's total sales. Private-label goods, by contrast, have dropped to 35% of sales from 75%.

In need of capital to exploit Natural Issue's success, in 1993 the Feldenkreises sold 34% of Supreme to public investors for \$13.8 million. (The stock was offered at \$11.50 and recently traded at 12¼ a share over-the-counter.) Last fall they increased the company's credit line with Nations-Bank from \$15 million to \$25 million, and are now seeking to increase the limit again.

With Levi Strauss' Dockers brand as his model, Oscar Feldenkreis plans to put his Natural Issue label on casual slacks, shorts, socks and sweaters. On Father's Day there will appear printed, knitted-cotton boxer shorts with the Natural Issue label. In the fall Supreme will introduce a collection of weathered-looking men's shirts and pants under the Natural Issue label.

George Feldenkreis expects that Natural Issue will propel Supreme's sales to \$120 million this year. Wall Street analysts think earnings for the year ending Jan. 31, 1996 will come in at around \$1.75 a share; that's up from \$1.10 a share for this past year.

Supreme's Natural Issue will never rival Levi's Dockers brand. The company is too small. With total capitalization of \$42.8 million (of which debt is 50%), Supreme expects to spend less than \$1 million for media advertising this year. Dockers will probably spend over \$25 million.

But there are other ways to measure success. Says Isaco International's Isaac Zelcer, who knows Feldenkreis *père* and *fils* well: "Each has a great deal of respect for the other's ability. They don't try to go into the other's area of expertise." ■

FOLLOW-THROUGH

Desert storm

LINDSAY, NEBR.-BASED Lindsay Manufacturing Inc. once had a hammerlock on the irrigation equipment market in Saudi Arabia (FORBES, Apr. 29, 1991). Between 1989 and 1994 little Lindsay exported some \$185 million worth of sprinklers and pipe to the desert kingdom, where economic planners offered huge agricultural subsidies as the keystone of policies to make the country self-sufficient in food. As orders poured in, Lindsay piled up cash and scored average earnings increases of 12% a year.

All that came to a screeching halt last year. The kingdom had become a net exporter of wheat and also suffered budget constraints, so the Saudi government suddenly put an end to farm subsidies. Lindsay's Saudi sales plunged last year to \$8 million, from a peak of \$44 million three years ago. Lindsay's stock dropped from 37 a share to 27⅞ (recent price, 29¾).

Lindsay Chief Executive Gary D. Parker admits he was caught with his pants down. "We did not realize," says Parker, "that the market would change as quickly as it did."

But there were positive developments, too. Low interest rates, strong commodity prices and pent-up demand caused domestic sales to surge 53% last year, to \$77 million. Total revenues grew to \$113 million—a record year for Lindsay since going public in October 1988. At \$2.31 a share, earnings reached an all-time high.

The combination of weak stock price and strong earnings created a new concern for Parker. Last sum-

mer a group that included Perry, Sid and Lee Bass bought a 7% stake in Lindsay and began prodding Parker to deploy Lindsay's financial resources more aggressively. "There are open and ongoing talks between us [and the Bass interests]," Parker reports.

Parker needs some encouragement. Over the years he has looked at over 100 potential acquisitions but



Lindsay Chief Executive Gary Parker
Cash-rich and looking to buy.

never closed a deal. With the Bases looking over his shoulder, Parker has hired Milwaukee-based investment bankers Robert W. Baird & Co. to look for companies to buy. "Making a strategic acquisition," says Parker, "is extremely important to this company long term."

When the right candidate emerges, Parker will have no trouble paying for it. Thanks to his conservative management, Lindsay has no debt and \$60 million (over \$12 a share) in cash.

—JAMES SAMUELSON

"YOU TAKE CARE OF THE THINGS YOU CARE ABOUT."

"It's up to all of us to take care of the Earth, as well as the things that live here. I work for Georgia-Pacific, a forest products company, and they



believe the same thing. When we learned that the Coho salmon and Steelhead trout were struggling to survive, we came up with a plan to help. We're putting large boulders and logs in the rivers to create calm pools where

habitat

the small fish can grow and survive until they head out to the ocean. It was something that needed to be

done to help the fish. And it feels good to know that my company

is doing it." *Dick Patton, Resource Manager*

Georgia-Pacific



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Restoring Balance



DENNIS H. CHOOKASZIAN,
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Joint and Several Liability. We believe that injured individuals should be compensated for losses by those who are at fault for those injuries. The doctrine of joint and several liability, however, allows

injured parties to seek damages from anyone even slightly connected to the injury. This was intended to ensure compensation for the injured even if the party most responsible cannot pay. This "deep pockets" approach, however, means those with little or no fault may have to pay the entire award. We believe that all parties should pay in proportion to their share of fault, not their ability to pay.

Punitive Damages. CNA advocates stricter standards for awarding punitive damages, which are meant to punish those at fault for intentional or malicious misconduct and to deter future misconduct. Yet punitive damages are routinely sought in many cases. Since juries have no objective standards and often receive little guidance, awards tend to be unpredictable and excessive. Even worse, awards go to plaintiffs whose own negligence has caused their injuries.

The trend toward more punitive awards, in staggeringly large sums, has distorted settlement negotiations as well as the litigation process itself.

Punitive damages should be awarded only after a defendant has been found liable for economic damages. Another trial should be held for punitive damages, using separate evidence to support misconduct. Juries should be given clear, objective guidelines to determine the award amount. One way would be to use a multiple of the economic-loss award for factors such as medical costs, property damage and lost wages. In addition, if such damages are to be truly punitive, they should not be insurable, as they are in some states.

Non-Economic Damages. Awards for non-economic damages should be capped. Non-economic losses include pain and suffering, emotional distress and loss of consortium or companionship.

Businesses Need Reasonable Limits on Liability

Because non-economic losses are extremely subjective with no verifiable monetary value, it is difficult for juries to assign a dollar amount to such losses, particularly with little guidance from courts. As a result, juries deciding non-economic damages in the emotionally charged atmosphere of personal injury trials often produce awards that are increasingly unpredictable and excessive. Capping non-economic damage awards at a set dollar limit would provide a degree of predictability while still compensating plaintiffs fairly for losses.

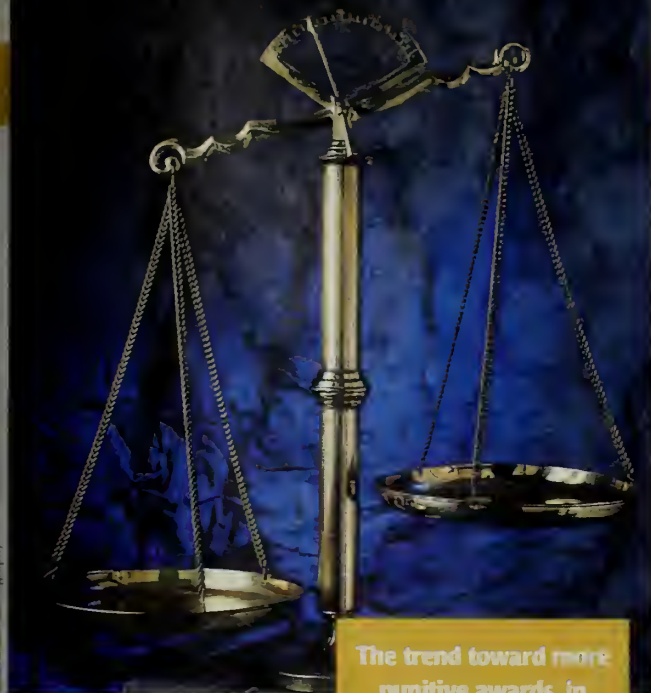
Liability lawsuits against large and small businesses have become commonplace. In some cases, retailers and distributors that have no control over a product's design, manufacture or accompanying safety warnings have been held liable for a plaintiff's injury. Multiple awards can push even the largest of corporations to the brink of bankruptcy. Businesses need legislation that would place more reasonable limits on liability for products and completed operations.



WILLIAM A. GOOD,
EXECUTIVE VICE PRESIDENT
NATIONAL ROOFING
CONTRACTORS ASSOCIATION

"In states with open-ended liability, roofing contractors are losing work."

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The trend toward more punitive awards, in staggeringly large sums, has distorted the litigation process.

we use and in the work we perform. For example, liability costs increase the price of the ladders we use by 30%.

Liability for completed operations can be unreasonable as well. The statute of limitations on defective construction allows buyers to sue the contractor or subcontractor for a specified period. In most states buyers can sue up to four to eight years after construction. In California, where the statute runs for 10 years, suits are being filed just before the statute runs out, claiming structural defects when, in fact, only normal aging has occurred. This well-intended piece of legislation has created endless liability for responsible business people.

In states with open-ended liability, manufacturing plants are closing down and roofing contractors are losing work and moving out of state. Clear and uniform laws would discourage this practice of open-ended liability in which anyone in the chain of manufacture, distribution, sale or installation can be sued.

Consumers Benefit From a Consistent Body of Law

As consumers we all want the legal system to protect us, and we need legal standards that are fair and consistent. When legal awards vary significantly from state to state, and from case to case, they create an inherently unfair method of compensating injured persons. Ultimately, this increases the cost of consumer goods and services for everyone. For example, liability lawsuit costs increase the average family's grocery bill by \$280 annually.

The existing tort system takes far too long to compensate injured people. As a result, the system unfairly penalizes the very people it was designed to protect. In some states it may take more than two years for an injured person to receive compensation. After this excessive delay, many receive little compensation because up to 50% of their award is taken for legal fees and court costs.

Huge liability costs affect consumers through the loss

Part of a series on important public policy issues from

CNA

For All the Commitments You Make®

of jobs, services and products. A recent Conference Board survey found that the threat of lawsuits forced 47% of companies polled to drop one or more product lines, 25% to end research programs, and 39% to withhold new products from the market.

Public opinion strongly supports tort reform. ATRA polls have found that the overwhelming majority of those polled think that too many people are taking unfair advantage of the system by filing frivolous lawsuits, hoping to "hit the jackpot."

Tort reform, at both the state and federal level, can take the "lawsuit lottery" characteristics out of the tort system. While there have been successes in recent years, much remains to be done.



SHERMAN JOYCE,
PRESIDENT,
AMERICAN TORT REFORM
ASSOCIATION

"Huge liability costs prevent the creation of new jobs, services and products."

Tort Reform: An Economic Imperative

Injured parties deserve to be compensated. However, current excesses in the tort system seriously harm both businesses and consumers. We need a balanced, fair and reasonable tort liability system that provides objective, generally accepted standards for awarding damages. Reform can reduce costs to businesses and consumers. It can provide more predictability for liability risks, allowing businesses to operate more competitively in the expanding global marketplace.

Despite the recent political sea change and the number of reform bills being considered at both the state and federal level, effective reform is by no means assured. Active involvement by individuals and businesses is crucial if we are to overcome entrenched opposition to reform.



To obtain information on specific state and federal tort reform efforts, contact the American Tort Reform Association at 1-800-306-ATRA.

CNA is one of the 10 largest U.S. insurance groups. It is a multi-line insurer with nearly 100 years of experience. CNA is a registered service mark of the CNA Financial Corporation.

Big phone companies are bidding billions for wireless telecommunications licenses. Here's a way to get into the cellular business for under \$5 million.

Restless in Seattle

By Nancy Rotenier

RUSHED TO A Seattle-area emergency room eight years ago with profusely bleeding ulcers, commercial real estate sales executive Richard John was given two choices by his doctor: Quit your job. Or die.

Out of the hospital and unemployed, John was sitting in former colleague Richard Gaetaniello's office a few months later. He began complaining about how expensive his cellular telephone bill was—he'd been paying 75 cents per minute for airtime. The two decided to cut their bills by buying time in bulk from their local cellular carrier, McCaw Cellular's Cellular One. Cellular One agreed to sell them 1,000 minutes for \$420—just 42 cents a minute. John and Gaetaniello figured that whatever time they didn't use themselves they'd sell at cost to friends.

"I had no thought of going into business," says John. But when their friends clamored for cheap airtime, John and Gaetaniello figured there was an opportunity in buying cellular airtime at wholesale and reselling it at a markup to retail customers. In July 1988 they started Celtech International, Inc. Initial investment: \$25,000.

Based in Bellevue, Wash., across Lake Washington from downtown Seattle, Celtech is today one of 100 or so companies in the \$500 million (revenues) cellular reselling industry. With 5,000 subscribers and \$4 million in revenues, Celtech is now the largest reseller of Cellular One service in the Pacific Northwest. And it's for sale. Asking price: \$4.5 million.

"I haven't taken more than two

days' vacation in seven years," says John, now 57. "It's time for me to go play." He says he wants 50% of the price in cash, and will take back a note for the rest. (Partner Gaetaniello had a heart attack four years ago and sold his 50% stake to John then.)

On the surface this doesn't look like a particularly attractive opportunity. John's asking price values Celtech subscribers at \$900 apiece—the same value analyst Charles DiSanza of New York-based brokerage Gerard Klauer Mattison & Co. puts on Nationwide Cellular, the only publicly traded reseller.

But dig a little deeper and Celtech might, in the right hands, be worth the price.

This is a straightforward retailing operation. Celtech buys airtime from Cellular One at wholesale and repackages the time for sale to individuals and small businesses. Example: In the Seattle market, Celtech buys time at 25 cents a minute and retails it in packages of 60 minutes for \$35, plus 37 cents a minute for additional usage. By contrast, Cellular One (or more precisely AT&T, which operates under the Cellular One name, having acquired McCaw Cellular in 1994) charges retail customers in Seattle \$30 a month for 30 minutes plus 52 cents for each additional minute.

Why can Celtech underprice its supplier? Because Cellular One (and other primary cellular carriers) must finance huge capital investments to build and upgrade their cell sites. Moreover, the primary carriers typically bundle their airtime with a cellular phone. Thus they spend over \$500 to add one new retail customer.

Richard John, founder of Celtech International

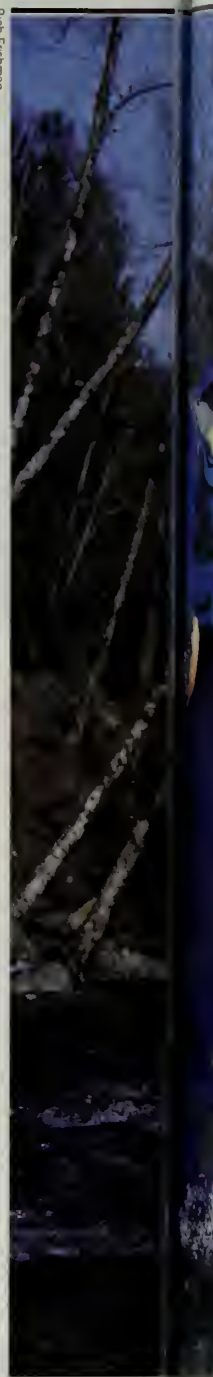
Bleeding ulcers forced him to quit his first job. A desire for fun has him selling his second.

But as a reseller, Celtech doesn't face the capital requirements of building cell sites. Nor does it give away phones. It looks instead for customer who already have phones and are seeking cheaper airtime. Result: Celtech's cost of adding a customer works out to around \$60.

Let's look at Celtech's cash flow. Out of its \$4 million in revenues last year, Celtech's biggest expense was buying airtime—\$2.5 million.

The second-largest expense was ad

Rich Freshman





That leaves around \$250,000 a year in truly free cash flow with which to build the business. Roughly but realistically speaking, it's enough to add over 4,000 new customers to Celtech's subscriber base. If each of these new subscribers generates the same gross profits as existing subscribers did last year—and allowing for higher overheads of the expanded operation—Celtech could be throwing off maybe \$1.3 million in free cash flow a year hence.

A nagging thought: What if Celtech's airtime suppliers, the primary cellular carriers, decide to match Celtech's prices? John has already fought

"I haven't taken more than two days' vacation in seven years. It's time to play."

that battle, and won.

In 1991 John suspected Cellular One of charging him more for airtime than it charged its own customers. Armed with the fact that the Federal Communications Commission mandates cellular licensees to sell time to resellers, and to do so at the same rates they sell to their own customers, John filed a lawsuit, ready to haul Cellular One into federal court. After 2½ years of wrangling, John emerged with a settlement last year that guarantees Celtech the right to buy airtime at a price no higher than what the primary licensees charge their big customers. In effect this settlement is Celtech's most valuable, if hidden, asset.

John, who paid himself a salary of \$64,000 last year, says he'd like to stick around and work for Celtech's new owner, signing up subscribers in other states. He's already drumming up business in Florida, Colorado and Utah, which he estimates will bring an additional 5,000 customers this year.

But don't expect John, a divorced father with three grown children, to put in the kind of hours he worked to build Celtech to its current size. He's gotten into weekend flyfishing and sea kayaking trips, and likes tooling around town in his new black Mercedes SL500 convertible. "With that I might be able to find a wife to retire with," he says, hopefully. ■

vertising—billboards, print and radio ads, bus tails and direct mail. Last year advertising expenses totaled around \$150,000. Other annual expenses: \$148,000 in payroll for four employees; \$112,000 for lawyers, accountants and computer consultants; \$36,000 for rent; a \$40,000-a-year reserve for bad debt; \$52,000 for billing, credit and printing services; \$36,000 for telephone, office supplies and equipment; \$20,000 for postage and shipping; \$8,000 for credit refer-

als and bank charges; and \$4,000 for insurance.

That leaves \$842,000 in free cash flow for a potential buyer of Celtech to work with. Suppose the buyer gave John \$2 million in cash and signed a ten-year note at 10% for the remaining \$2.5 million. Amortizing the note would require around \$400,000 a year. And don't forget the opportunity cost of the buyer's \$2 million down payment. We'll figure that at \$200,000.



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Not very long ago, when a top fashion model hit her mid-30s, her best hope was to find a rich husband. Now she can call her agent and launch a new product.

'We have shares''

By Joshua Levine

LAST WEEK Bear, Stearns & Co. hosted a panel discussion in New York for its annual retailing conference. The lineup included top executives from Donna Karan, the Limited, Dillard Department Stores—and Frederique.

Frederique? She's an underwear model: Frederique van der Wal, the 5-foot-10-inch Dutch girl with the limpid blue-green eyes who appears regularly on the covers of the Victoria's Secret lingerie catalogs. But she's also a budding entrepreneur who earned an estimated \$1 million last year. "Athletes are a step ahead [in earning power] at the moment," says Freddi, "but I'm just getting started."

She already has her own mass-market fragrance, called Frederique; through her 60%-owned Dutch Treat, Inc., she has the Freddi Q swimwear line; and a forthcoming line of underwear and sleepwear to be distributed through in-store boutiques in 500 J.C. Penney stores. On a recent calendar shoot in the Caribbean, Frederique hired her own film crew to shoot the shoot. She is shopping the behind-the-scenes video to Showtime.

Says Mark Kurland, senior managing director at Bear, Stearns: "Freddi's got a good business head, and she's creating a brand identity. You're talking dollars that could potentially be huge."

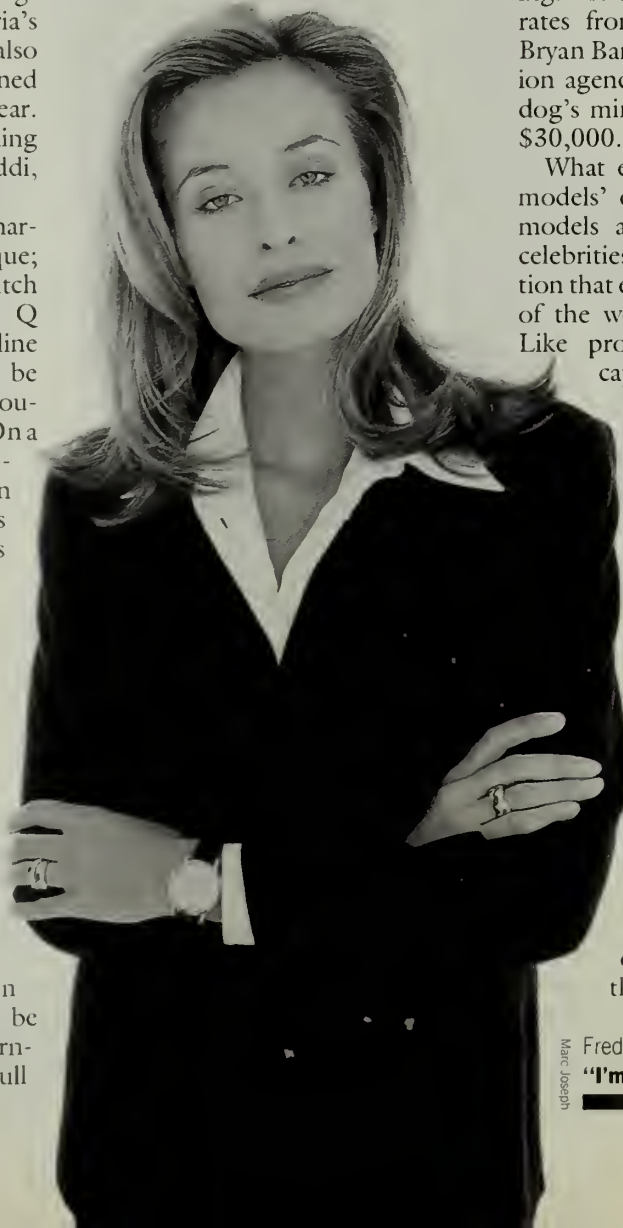
There's nothing new about beautiful women making big money in the modeling business. In the mid- to late 1960s, when models like Twiggy and Jean Shrimpton ruled the runway, day rates for top models ran around \$600—roughly \$3,000 in today's money. Good money to be sure, but hardly the superstar earnings that today's top models pull down.

The earning window closed early, too. By age 30, most models were asked to move on. The smart ones had salted away enough money for a comfortable life in relative obscurity. Shrimpton, for instance, bought an inn in Wales, married, and lives quietly there today. "Jean Shrimpton was a magnificent girl, and if she were

around today you would see an incredible difference," says Monique Pillard, president of New York's powerful Elite modeling agency. "But back then, she was just a model."

By the early 1980s a supermodel like Cheryl Tiegs was still commanding a day rate of only \$1,000. But within a few years fees were exploding. "It took us 20 years to get day rates from \$600 to \$1,200," says Bryan Bantry, who runs his own fashion agency in New York. "It took a dog's minute to go from \$3,000 to \$30,000."

What explains the modern supermodels' earning power is this: Top models are becoming mass-market celebrities with brand-name recognition that extends far beyond the pages of the women's fashion magazines. Like professional athletes, they're capitalizing on this mass recognition value by creating their own product lines and lending their names, faces and figures to manufacturers for fees that earlier generations of models could only dream of. Calvin Klein, for example, pays Christy Turlington an estimated \$1.2 million a year to promote his women's underwear line, and he figures her celebrity value justifies every penny of it. When Turlington, who earned an estimated \$4.8 million last year (*see list, p. 77*), appeared at Bloomingdale's with Klein to kick off the product's launch last



Frederique van der Wal
"I'm just getting started."

month, 500 autograph hounds showed up.

This isn't happening by accident. Behind the new superrich models are shrewd agents whose job it is to turn photogenic physiques into personalities with whom broad segments of the public can identify. Example: In 1988 Cindy Crawford, number one on our list of highest-paid models, was a highly paid cover girl able to pull down maybe \$750,000 a year in modeling fees, but not a \$6.5-million-a-year brand name. To position her to an audience beyond the fashion

first swimsuit calender, produced by Elite in 1990. It sold thousands of copies at \$14.95 each. Nor did it hurt that in 1991 Cindy married actor Richard Gere—an off-again, on-again marriage that fueled a thousand tabloid stories. (The couple separated last year.) Says Elite's Monique Pillard: "When Cindy sneezes, I want New York to know."

It was Crawford's Pepsi commercials—the first in 1991—that firmly established Cindy's supermodel persona. The ad, produced to introduce new graphics on the Pepsi can,

other way around. This month Estée Lauder signed the 29-year-old British actress Elizabeth Hurley as its new face. And Pillard, of Elite, recently took on *Beverly Hills 90210* star Shannen Doherty, who apparently believes she can improve her income by becoming a top model. Given all her exposure, she's probably right.

Says Revlon Chief Executive Jerry Levin, who pays Crawford some \$1.5 million a year to pitch Revlon's entire cosmetics line: "Models have taken the place of the old Hollywood stars, who don't seem to have much sense of style anymore."

Elle Macpherson earned around \$3 million last year and is only beginning to hit her top earning years. Like her peers, Macpherson, 30, sees herself as the owner of a valuable brand name that can be developed and extended for many years to come. "I have never been satisfied with just pretty pictures in magazines," says Macpherson. "It doesn't rock my world and it doesn't make me financially independent."

Six years ago Macpherson signed a deal with a New Zealand apparel goods manufacturer called Bendon to manufacture a line of lingerie called Elle Macpherson Intimates for the Australian and New Zealand markets, where Sydney-born Macpherson is something of a local religion. She designs the line and models it in TV commercials. Macpherson gets upwards of 6% of net wholesale sales, estimated around \$25 million, giving her a yearly check of around \$1.5 million from Bendon alone.

Next up: a chain of Elle Macpherson lingerie boutiques in stores in Australia; the first will open in May. Macpherson hopes to lend her name to bed and bath products. And she is part owner of Fashion Café, a restaurant due to open in New York in April. Macpherson's partners include fellow models Naomi Campbell and Claudia Schiffer. Similar in concept to restaurants in the Planet Hollywood chain. Fashion Café plans to go international and flog high-margin memorabilia and trinkets as well as food.

"This is not about lending our image for a fee," says Macpherson. "We've got shares."

At the top of the modeling world sits 28-year-old Cindy Crawford whose entrepreneurial drive has wor



Supermodel Cindy Crawford on MTV's "House of Style" set

How to parlay a beautiful face into \$6.5 million of flesh equity.

world, John Casablancas, head of the \$100 million (annual gross booking fees) Elite agency, engineered a *Playboy* photo spread for Crawford.

Crawford was paid well for exposing herself, but much more important was the exposure she received beyond the fashion world. The 1988 *Playboy* spread led to a spot hosting MTV's *House of Style* in 1990—ten episodes, repeated constantly, that kept her face with its instantly recognizable mole in the public eye. That was a key building block in making Crawford more than just a pretty face.

Adding to the hype was Cindy's

showed Cindy in a tight white top and cutoff jeans exiting a Lamborghini at a country store as two open-mouthed kids gawk. "Is that a great new Pepsi can, or what?" says one kid.

"There are lots of beautiful women, but Cindy projects this self-knowing wink," says William Katz, who heads the Pepsi account at ad agency BBDO Worldwide. "Her persona says, 'I know that you know that I know I'm beautiful.' We're not selling sex for sex—we're selling Cindy as humor."

It used to be that many young women hoped to jump from modeling to Hollywood. Now it also works the

The models with the mostest

Top models earn \$15,000 and up for a day of fashion shooting or runway strutting, over \$100,000 for a few days at major fashion shows—and millions for big ad campaigns. Here are **FORBES'** estimates of the top models' 1994 gross earnings.
—DAVID S. FONDILLER and ROBERT LA FRANCO



Steve Granitz/Retna

1. Cindy Crawford

1994 Earnings: \$6.5 million
Age: 28 Nationality: American
Agency: Elite Models/William Morris Agency
With contracts from ad campaigns for Revlon, Pepsi and Kay Jewelers, her Crawdaddy nets more than most modeling agencies. Other products include exercise videos and TV specials.



Robin Kennedy/Retna

6. Niki Taylor

1994 Earnings: \$2.4 million
Age: 20 Nationality: American
Agency: International Management Group
After hitting the big time at age 15 with a L'Oréal contract, she now works with Cover Girl and Pantene. A special correspondent for NBC-TV in Miami; in Disney's recent film *Camp Nowhere*.

2. Claudia Schiffer

1994 Earnings: \$5.3 million
Age: 24 Nationality: German
Agency: Metropolitan Models
Supermodel whose modeling star has peaked—diversifying into books, exercise videos and bit part in *Richie Rich*. Big Revlon contract, international Coke/Fanta deal; Fashion Café partner with Campbell and Macpherson.



Victor Mihalovic/Celebrity

7. Isabella Rossellini

1994 Earnings: \$2.3 million
Age: 42 Nationality: Italian
Agency: Elite/Creative Artists
L'Oréal Lancôme dumped its former star last year, but Rossellini rebounded with an estimated \$2-million-a-year deal with Lancaster Group Worldwide. Also starred as Beethoven's former lover in 1994 film *Immortal Beloved*.



Jean Claude Dupuy/Retna



A. Sengul/Retna/Gallia

3. Christy Turlington

1994 Earnings: \$4.8 million
Age: 26 Nationality: American
Agency: Ford Models
Best known today for her new Calvin Klein underwear campaign. Also Maybelline, Calvin Klein's Eternity fragrance, Camay, Kellogg's Special K and Shiseido in Japan; ad campaigns include Burberry's and Versace.



Jim Smeal/Retna/Gallia

8. Kate Moss

1994 Earnings: \$2.2 million
Age: 21 Nationality: British
Agency: Women
The pouting face of Obsession fragrance by Calvin Klein. Klein created a supermodel by plastering her bony limbs in panty and bra campaigns across U.S. Ushered in short-lasting waif look. Yves Saint Laurent's Opium girl.

4. Linda Evangelista

1994 Earnings: \$3.0 million
Age: 29 Nationality: Canadian
Agency: Elite
She works well over 200 day-hoots a year, although some are low-paying magazine shoots. Big ad campaigns include Chloé, Kenar and Jil Sander. No spinoffs or exclusive contracts to speak of, she's a modeling pure play.



Scott Downie/Celebrity

9. Naomi Campbell

1994 Earnings: \$2.1 million
Age: 24 Nationality: British
Agency: Elite
Her novel *Swan* sold 75,000 copies; CD *Babywoman* much less successful; Fashion Café partner; posed for Madonna's coffee-table book *Sex*; contract with Italian clothing maker Swish; plans her own cosmetics line.



Francis Ageton/Gamma Liaison



Albert O. Jones/Retna

5. Elle Macpherson

1994 Earnings: \$3.0 million
Age: 30 Nationality: Australian
Agency: Women
Elle Macpherson Inc. is the umbrella company that runs her many business dealings including a lingerie line and an interest in Fashion Café. *Playboy* spread last year followed film debut in 1994 hit *Sirens*.



Berry Talbot/Retna

10. Bridget Hall

1994 Earnings: \$2.0 million
Age: 17 Nationality: American
Agency: Ford
Ushered in post-waif look; recently landed huge Ralph Lauren contract; ad campaigns for Guess and Pepe jeans (at same time), Christian Dior, Versace, Banana Republic, Maybelline; Ford agency's brightest new star.



Steve Allen/Gamma-Liaison

Fashion Cafe's Claudia Schiffer, Elle Macpherson and Naomi Campbell
"This is not about lending our image for a fee. We've got shares."

her the sobriquet Cindy Inc. and brought her some \$6.5 million in earnings last year alone. Through her Crawdaddy, Inc. holding company, Crawford makes most of her money from Pepsi commercials, her MTV show *House of Style*, and seven-figure endorsement contracts with Kay Jewelers and Revlon. To this add royalties from swimsuit calendars, exercise videos and, most recently, a movie contract with Warner Bros.

The downside of the modeling business is the same as with any business based on glamour: an undeniable sleaze factor. Ingenues hungry to break in must fight for the attention of photographers, agents, stylists and bookers, many of whom have more than business on their minds. Sex-for-advancement is often the name of the game. Drugs are everywhere and killed model Gia Carangi, who died of AIDS in 1986. Says Victoria's Secret

girl Frederique: "You have to be strong enough to say, 'Are we shooting, or am I going home?'"

"Glamour is inextricably entwined with testosterone and manipulative need," says Jeremy Foster-Fell, who runs a small modeling agency under his own name. "How do you pretend to sell it, and then walk away from it?" Most modeling agencies have received acquisition offers from rich businessmen willing to pay big money for, as Foster-Fell puts it, "their own inventory banks of cookies."

Ali Larter, a 19-year-old model in Miami Beach, says she has already seen the modeling life chew up a number of her friends. But she still walks the runways and shows up for shoots. "Where else is somebody going to pay me \$1,500 a day to smile?"

Of the fees, agency owner Jeremy Foster-Fell says with rare candor: "We're destroying their lives, so we might as well pay them for it."

But the modeling world is probably no worse in this regard than Hollywood. And you can say this for the modeling business: At the top the opportunities are far more lucrative than they used to be, and last longer. In the days of Twiggy and Shrimpton, when a model hit her mid-30s, her best hope was to marry well and move to Greenwich, or maybe cut a small movie deal. But as mass-market brand names, today's top models can extend their working years well into their 40s and perhaps beyond.

Consider Isabella Rossellini. In her late 20s she became the principal face for L'Oréal's Lancôme and was for a dozen years. Last year Rossellini turned 42 and L'Oréal declined to renew her contract, but Rossellini's career was by no means washed up. She signed on as vice president for product development for New York-based Lancaster Group Worldwide, a privately owned cosmetics and fragrance company. Rossellini will advise Lancaster on the imagery and positioning of its brands, and may ultimately develop a line under her own name. Most estimates put her annual pay at around \$2 million, about what she had been getting from L'Oréal.

"I have an office and I go to that office," says Rossellini. "It's only recently that people have begun to see modeling as an actual career."



Allan Tannenbaum/Agency

Christy Turlington with Calvin Klein at Bloomingdale's last month
Flogging his new underwear line will bring her \$1.2 million this year.

Several airlines are shaking up the executive suites and bringing in outsiders. Will they stop giving their products away?

Recovery

By Howard Banks

NEW NAMEPLATES are going up in the U.S. airline industry's executive suites. The heads of Kiwi, Continental and Alaska Airlines have recently been sacked; TWA's former chairman has been replaced by John C. Cahill, formerly head of British Aerospace. Even inward-looking Delta Air Lines is said to be looking outside for a new top manager.

Will the injection of fresh blood enhance the cyclical upturn of an industry that from 1990 to 1993 lost nearly \$4 billion and last year earned just \$100 million on revenues of \$54 billion—barely 2 cents for every \$10 in revenues?

That is clearly the hope at American Airlines. Parent AMR Corp. is about to begin a top-to-bottom revamp of its headquarters management. Up to 30% of the group's 5,000 middle-to-senior-level management jobs will be cut, for a savings of \$75 million a year. Equally important, the shakeup is expected to give each of AMR's main units—the airline, the Sabre group, which includes computer reservations, and management services—its



American's Robert L. Crandall
He cut capacity again this year.

own president and more operating autonomy.

This could mean Chairman Robert L. Crandall will yield some control over the airline. With American facing three tough labor negotiations this year (with its pilots, flight attendants and mechanics), distancing the smart but abrasive Crandall from daily operations may be part of management's planning.

At Delta, Chairman and Chief Executive Ronald W. Allen has already brought in outside managers in sever-

al key areas, including technical operations, marketing and labor. This airline is in the middle of cutting \$2 billion (and 15,000 jobs) from Delta's cost structure. Goal: Reduce overall operating costs from 9.4 cents for every seat flown for 1 mile (called available seat miles, or ASMs) to 7.5 cents/ASM, the level of price leader Southwest Airlines.

A Delta executive says quietly that Delta is already on track to match American's 8.3 cents/ASM by this summer. Hitting this target would boost 1995 earnings to \$2.50 a share, versus a \$3.73/share loss last year.

NatWest Securities analyst Michael W. Derchin expects the recovery now under way to be healthier for the airlines than past recoveries, on two counts: domestic fares and capacity.

There are still fare wars. But in general the airlines, like Detroit's car-makers a few years ago, are tired of giving their product away. As a result, fares have been tending upward over the past three or four months.

This improvement in the fare structure is mostly the result of the two price leaders—Southwest and Continental—needing the money. Southwest, the industry's lowest-cost producer, has been fighting United Airlines' new low-cost shuttle service for market share, particularly out of Chicago and in the western states. Southwest saw an unprecedented profit decline in last year's fourth quarter, to \$20 million (down from \$38 million in the same period in 1993).

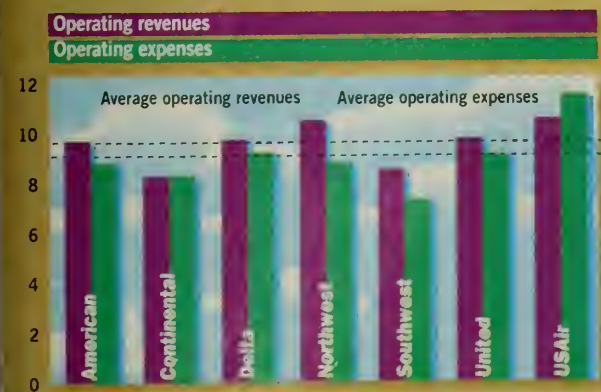
At Continental, Chief Executive Gordon Bethune admits the carrier overexpanded its low-cost CALite service last summer. Bethune has since dumped a third of CALite's routes as uneconomic and is working to strengthen Continental's fares.

In the initial stages of this recovery, most carriers haven't increased capacity to match rising passenger traffic (up by 5% in 1994). American's Crandall cut domestic capacity 6% last year and will probably cut again this year. This will help American throw off sufficient free cash flow this year to pay down \$500 million in debt, having paid down a like amount in 1994.

Overall, limiting capacity additions has enabled the carriers to use their equipment more efficiently: The average load factor was 65.8% last year, up

Mostly back in the black, just

Cents per available seat mile (major carriers, third-quarter 1994)



Modest traffic growth has lifted the airlines into the black in operating terms; USAir remains the obvious exception.

Source: Avitas Aviation, based on carrier Form 41 filings with the Department of Transportation

from 63.6% in 1993. Every extra percentage point adds over \$700 million in operating revenues.

But don't uncork the champagne. The carriers have a long way to travel. Last year fuel costs were a low 12% of industry operating costs, but this year fuel prices are expected to rise by around 5%. Traffic growth will remain modest. These factors help explain the industry's February attack on travel agent commission costs, which currently account for 10.5% of overall costs and have been the airlines' fastest-growing expense.

At the end of the day, the strength of this earnings recovery will probably turn mainly on whether the major carriers continue to restrain capacity

growth. Here new managers from outside the industry may prove helpful. Restraining capacity means bucking airline history: In recoveries past, the airlines have ordered lots of new planes as soon as they have made a profit for five quarters or so.

Can the urge to add moneylosing planes and routes be resisted? The early evidence is mixed. United Airlines saved \$500 million a year in labor costs when the employees took over the company last summer. Now Chief Executive Gerald Greenwald, an industry outsider (*see box*), is talking of spending those savings on new aircraft and expanding United's capacity—no surprise at an airline that is controlled by its pilots.

On the other hand, United hopes to gain some capacity for its low-cost shuttle operation at what amounts to no cost by turning the planes around much faster each time they land—an old Southwest trick. And instead of buying new planes, the airlines are updating many more existing short-haul planes than expected, adding so-called hushkits to comply with tougher noise rules that will be phased in by 2000. Hushkits cost under \$3 million per plane, versus \$35 million to \$45 million for a new plane.

With such economies, the airline industry could be much more profitable during this recovery than most people—including many of the carriers' bosses—think. ■

No excuses

AFTER HELPING Lee Iacocca save Chrysler Corp., Gerald Greenwald is now helping United Airlines' new controlling shareholders—its employees, who last July bought 55% of holding company UAL Corp.—turn their carrier around. He says he has little sympathy for many airline bosses' feelings that the airlines' troubles are caused by factors beyond their control. "Smells too much like excuses," he says, ticking the industry's favorite complaints off on his fingers:

"One, Chapter 11 has kept airlines going, which then charge low fares. Two, the unions are tough. Three, airlines are highly capital-intensive. Four, Washington doesn't understand us.

"None of these are unique," Greenwald continues. "Other industries have learned to deal with each of them, in good and

bad times."

Greenwald rejects the notion that airfares are a commodity. He calls such thinking "a fad" that has led to much counter-

is travel agents' commissions, at \$7.5 billion last year the airline industry's fastest-rising cost. United is now experimenting with so-called ticketless travel,

savings could exceed \$500 million a year.

For example, pilots are working out how to save \$30 million a year in fuel by cutting use of auxiliary power units on the ground (United planes average an hour each landing, versus industry best practice of 15 minutes). The same amount could be cut by allowing staff to swap shift assignments to cope with personal needs. Shift swapping used to be banned, so people simply didn't show up for work.

Last year UAL lost \$11 million (61 cents a share) after an accounting change, on revenues of \$14 billion. But Wall Street thinks that with lower costs and firmer fares the carrier will earn close to \$8 a share this year.

An early sign that United may be on an upswing: In on-time performance, United went from eighth or ninth among major carriers to second by year-end (Northwest is first, according to Transportation Department records), with all the improvement coming after the employee buyout. —H.B. ■



Gerald Greenwald of United Airlines
The airlines can learn from Detroit.

productive cost-cutting. United, for example, failed to hire enough people to answer its reservation phones. Now Greenwald is adding over 4,700 reservations agents, plus some flight attendants, mechanics and maybe a few pilots.

One area in which Greenwald does think costs can and should be slashed

where passengers use their personal computers to make reservations directly with the carriers.

Greenwald says that United's employee-owners (who are guaranteed permanent jobs under the terms of last July's buyout) are coming up with lots of other ways to save money. Potentially, Greenwald says, these

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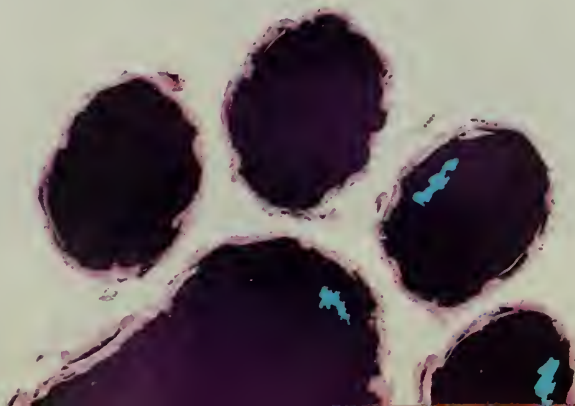
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Vladivostok harbor

Formerly a city closed to foreigners, it is now the gateway to the vast riches of the Russian Far East.

Vladivostok: Far-fetched as that seems at the moment, this rusting naval base has a glorious future. Proceed, however, at your own risk.

Russia-on-the-Pacific

By Paul Klebnikov

LAST SUMMER Hyundai, the South Korean conglomerate, cleared the site for a \$52 million business center downtown in the Russian Pacific Ocean port of Vladivostok, but now the bulldozers stand idle. Without warning, the city government slapped an extra construction tax on the project, rendering it uneconomical. "Hyundai did not have the right friends," notes one local financier, emphasizing the word right.

Rendered utterly cynical by 70 years of corrupt and brutal socialism,

Russian society today is like that. It's not who you know that counts; it's who you bribe or who you cut into the deal and for how much.

Nowhere is this more so than in the bustling port city of Vladivostok, 5,620 miles east of Moscow. Baksheesh is the supreme law here, Boris Yeltsin's decrees a faraway echo.

Vladivostok is virtually owned by a small clique of bureaucrats and managers. The Vladivostok mafia has a name: PAKT, an acronym for Russian words meaning Primorsk Producers'

Shareholders Corp.

It is PAKT and not Boris Yeltsin that you deal with in Vladivostok.

PAKT is a loose grouping of ex-bureaucrats and industrial managers from Vladivostok and the Primorsk region who wield more power today than they did under the old system. They first pooled resources in the summer of 1992, scraping together—not necessarily through legal means—the equivalent of \$2 million, which they used to buy major stakes in 32 newly privatizing businesses. These



Downtown Vladivostok

A shadowy organization called PAKT virtually owns the town.

included navigational instruments company Variag, the Vladivostok Trawler & Refrigeration Fleet and Spask Cement.

Anatolii Pavlov, the former head of foreign trade for the Primorsk region and its former deputy governor, was one of the founders of PAKT. He is refreshingly frank about the organization's purposes: "We had a certain circle of friends, and our aim was to make sure that this circle of people remained in charge of local business."

PAKT's \$2 million grubstake rose to

\$50 million, as quoted on the local stock exchange (*see box, opposite*) and is probably worth much more.

There was opposition to this power grab. A former navy officer named Viktor Cherepkov campaigned for mayor of Vladivostok on a populist anti-PAKT platform and won. He didn't last long.

With crime out of control in the city and its environs, Russian President Boris Yeltsin appointed a PAKT stalwart, Evgenii Nazratenko, as governor of the Primorsk region. In a blitz-



Governor Evgenii Nazratenko
A master of dirty politics.

krieg of dirty politics, the democratically elected mayor, Cherepkov, was accused of corruption by the new governor. The governor sent in riot police wearing masks to evict the mayor from his office and appointed an old communist as his replacement. The ex-mayor's son was arrested for allegedly stealing a personal computer from his school and was sentenced to seven years in jail.

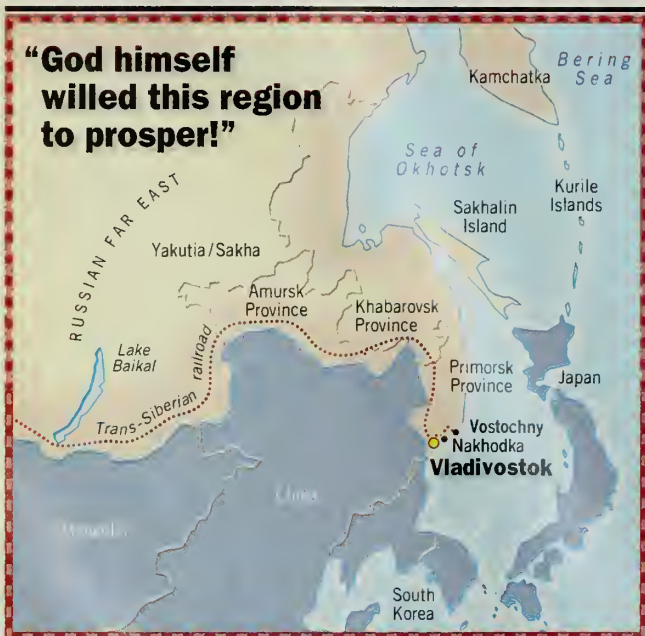
After a few impudent journalists were beaten up, the local press ceased to speak out against the administration. In this environment, the smaller mafia gangs are flourishing. They control the Vladivostok docks and the imported car market, connive to get lucrative real estate deals and routinely shake down local merchants and businessmen. Dimitri Krishchenko, a 28-year-old former navy officer who is general manager of Feji Financial Group, a local trading and financial services company, complains:

"The police have stopped functioning. And I can't say that the courts are any good, either."

Despite the absence of government services, the taxes are exorbitant. According to Seattle-based newsletter *Russian Far East Update*, businesses must cope with at least 18 different levies, including a police maintenance tax, a regional cleanup tax and a tax to support the "nonbudget science fund." Federal and local taxes can eat up as much as 90% of profits.

Moans Anatolii Pavlov: "The central government imposes such heavy taxes and regulations on us that we are not able to enter properly into the Asian-Pacific economy."

There is one consolation: Petty



Amy Oshier/Forbes

Vladivostok is an hour from Japan, an hour from China and three hours from South Korea. It's also where the Trans-Siberian railroad meets the sea.

crime has been curbed by the big criminals. With the turf more clearly divided there is less violence in Vladivostok than in Moscow.

Was it very different in the old American Wild West? Probably not.

Vladivostok, with its beautiful natural harbor, is, for all this turmoil, the future. "Look at the geography," exults Siberian business magnate Alexander Kirilichev. "God himself willed this region to prosper!" Kirilichev's Primorsk Shipping Co., based 75 miles east of Vladivostok, owns a fleet of tankers and is one of the largest companies in the region.

Vladivostok is an hour's flight from Japan, an hour from China, three hours from South Korea (*see map*). The Russian Far East is two-thirds the size of the continental U.S. but contains just 8 million people—3 people per square mile. Vladivostok is surrounded by wilderness (*see box, p. 90*). Every few years municipal authorities have to deal with a Siberian tiger that wanders in from the forest in search of city dogs for his supper.

For decades Vladivostok was a naval base, closed to foreigners. The rusting Russian Pacific Fleet still sits in the harbor, in such dire condition that

in 1993 four naval cadets died of starvation. With Vladivostok closed, most of the commercial traffic flowed through the nearby ports of Nakhodka and Vostochny.

Now, like old San Francisco, Vladivostok has two great things going for it: undeveloped natural resources and an unbeatable location.

In its wilderness lie great riches:

Fish: The Sea of Okhotsk, which until recently served as a huge private lake for the Soviet Pacific Fleet, is the most fertile fishing ground in the world.

Precious metals and stones: The

Buying a piece of Vladivostok

Says Victor Sakharov, the 36-year-old biologist who serves as president of the Vladivostok Stock Exchange: "It's always the same story. The first ones who arrive say, 'It's a terrible market! Don't go there.' Meanwhile, they're busy buying up all the stocks themselves."

Yes, there is a Vladivostok Stock Exchange, established in the former sauna and basketball court of the local Communist Party. The VSE has all the accoutrements: 82 licensed brokerage houses as members, a centralized quotation system with NYSE-style specialists who trade on the floor. The exchange has a central clearing organization that acts as nominee for member firms.

What it doesn't have is much volume or liquidity—most trading here is done privately. Some 320 companies are quoted on the exchange. Their combined market capitalization rose to \$1 billion last autumn, before falling to about \$400 million in the recent bear market. These prices are, of course,

pretty theoretical.

The biggest stock is Far East Shipping Co., with estimated sales of \$250 million last year, profits of \$35 million. It has 265 ships (total deadweight tonnage: 2 million), including bulk carriers, container ships and reefers. Its market P/E: 3.

Western buyers, attracted by these incredible-sounding bargains, accounted for the majority of the action of the Vladivostok exchange last year.

Mostly those were brokers like CS First Boston and American hedge funds. Together these foreign private investors hold anywhere from 10% to 30% of the equity of the largest companies.

English-born former Eurobond trader Andrew Fox is managing director of Pacific Gemini, one of the largest local brokerages. Undeterred by such problems as corruption, the uncertainty of titles and

the breakdown of civil authority, Fox has been grabbing up bargains. He bought 1% of Spaask Cement for 1.5 cents a share; the price zoomed up to \$6 a share.

Now Fox, who manages the \$12.4 million First Vladivostok Fund for foreign investors, is planning a \$25 million Dublin-listed fund this year. Keep in mind the relationship between risk and reward.

—P.K. ■



The Vladivostok stock exchange
Bargain-priced assets; little liquidity.



LEFT:
Trans-Siberian rail
yards at Vladivostok
**The conduit for
Russia's export
of timber, coal
and metals to
Asia.**

RIGHT:
A lone farm in
Primorsk province
**Despite good
soil, a relatively
mild climate and
abundant fish and
timber, the Rus-
sian Far East is
one of the most
underpopulated
regions on earth.**



Russian Far East accounted for about 15% of the world's gold production in the mid-1980s and nearly a quarter of its diamonds.

Timber: The estimated timber reserves of just three Far Eastern provinces—Primorsk, Khabarovsk and Amursk—are 318 billion cubic feet. That's nearly half the timber reserves of the entire U.S., including Alaska.

More and more of these goods are starting to move through Vladivostok and neighboring ports to the outside world. Last year Vladivostok and its neighboring ports shipped over \$1 billion worth of aluminum alone.

Already, the tonnage moved through Vladivostok, Nakhodka and Vostochny combined is equivalent to what goes through either the port of Los Angeles or Seattle-Tacoma.

Even more than resources, Vladivostok's greatest asset is its location. It is the eastern terminus of the great Trans-Siberian railroad. When the 5,787-mile railroad was pushed

across mountains, swamps and forests by the Russian czars 100 years ago, it was considered the greatest engineering feat of its time—more than twice as long as the great American transcontinental railroads that preceded it by a few decades. The Trans-Siberian stretches from Moscow to the Pacific—a land bridge between the busy workshops of Asia and the rich markets of Europe.

Now it is being upgraded by Sea-Land Service, a division of CSX Corp. Sea-Land is investing several million dollars to improve the railroad's computer systems, customer service and container-handling capacity.

Eventually, predicts Jack Helton, chief of Sea-Land's Moscow office, it will be cheaper to ship goods from the Pacific to Europe via the Trans-Siberian than by sea routes through the Suez Canal.

Say you want to ship a container of television sets from Pusan, in South Korea, to Vienna. Already the Trans-

Siberian route costs about the same as sea transport and saves one week. From Pusan to Moscow? The Trans-Siberian saves three weeks.

Unloaded from ships in the port of Vostochny, two hours' drive east of Vladivostok, containers full of Chinese textiles, South Korean consumer electronics and Japanese auto parts are rolling west along the Trans-Siberian railroad to Scandinavia and Central Europe.

Those containers return east loaded with Finnish paper products and Czech chemicals bound for Asia-Pacific markets. If under communism Siberia separated East Asia from Europe, today its railroad connects the two great scenes of economic activity.

Will the corruption and chaos sink the growth? In the long run, no, but for now, doing business here is only for those with strong nerves, saintly patience and a willingness to get involved in bribe-giving.

Americans who do come find a



Photograph by Peter Blum/SABA

welcome. Anatolii Pavlov explains why: "We live on separate continents, Americans and Russians. You don't need our land and we don't need yours. That's not something we can be sure about with our neighbors."

"Our neighbors"—a term heavily weighted with racism in this context—refers, of course, to the 1.2 billion Chinese who pack themselves into a space not much larger than that occupied by the 8 million Far Eastern Russians. In the relaxation of controls that followed the collapse of socialism, thousands of Chinese swarmed over the border. They were mostly petty traders selling merchandise from their suitcases or laborers looking for work.

This harmless influx frightened the wits out of the locals. Last summer, in a massive police sweep code-named Operation Foreigner, Governor Nazratenko rounded up most of the Chinese in Vladivostok and its environs and sent them home. The populace

cheered. Neither the Chinese nor the Russians have forgotten that the Vladivostok area was originally part of the Chinese empire. Nor has either party forgotten the short but bloody border war fought in 1969 between what were then two rival communist empires.

What about Japan? In Vladivostok, four out of five cars on the street are Japanese makes, the new rich tooling about in Toyota Land Cruisers. Over the past two years Japanese money has gone into setting up trading operations, upgrading airports and port facilities, building hotels, constructing sawmills and fish farms. But the big Japanese money is holding back. The two nations still quarrel over Tokyo's claims to four of the Kurile Islands seized by Stalin at the end of World War II.

The South Koreans have taken full advantage of the opportunity produced by Russia's dislike of its other two close neighbors. They persist

where other foreigners might give up. Kim Woo-Choong, chairman of the \$41 billion (sales) Daewoo Group, explains: "We [Koreans] are late in competing in the more advanced countries, so we need to look at the new markets. That means China, India and the former Soviet Union."

The giant South Korean conglomerates, like Samsung, Daewoo, Hyundai and LG Group, have been aggressive investors. Samsung did about \$500 million in trade with the former Soviet Union last year; the trade should hit \$700 million this year. Among Samsung's activities: \$260 million in housing and hospital construction projects in Russia and Kazakhstan, a joint venture producing telephone switching equipment in Pskov, a TV assembly plant in central Siberia and a VCR assembly plant in Voronezh.

Daewoo is probably the most heavily involved of the South Korean conglomerates—not only in Asiatic Russia but throughout the former Soviet Union. Daewoo has put serious money on the line. It is constructing a \$250 million business center in Moscow and has opened a chain of retail outlets in the Russian Far East. It is also investing \$658 million in a new car plant in Uzbekistan. Production, which is due to start next year, is projected to reach 160,000 cars per year by 2000.

Where are the Americans? Their biggest deal to date is the Sakhalin Island oil project. An international consortium of companies, led by

The Trans-Siberian doesn't cost any more and takes significantly less time than shipping by sea.

Marathon Oil, and including McDermott International, Mitsui, Mitsubishi and Royal Dutch/Shell, is awaiting parliamentary approval for its \$10 billion offshore oil and gas development project. Exxon is involved in two other projects off Sakhalin Island.

Cyprus Amax has received "a full go-ahead" on its \$150 million gold-mining joint venture in Magadan.

An unspoiled wilderness

TOURISM will one day be an enormous business in the Russian Far East, the greatest expanse of virgin wilderness left in the world. A wild, mountainous place, it is, apart from Vladivostok (pop. 900,000) and a few other cities, virtually uninhabited.

The climate? Forget your stereotypes about Siberia. Vladivostok has a relatively mild climate, rather like that of New York or Boston, thanks to its coastal location.

Accommodations: Try the deluxe Hotel Versailles (\$220 a night), situated in a sumptuous neoclassical building that used to be an opium den for visiting Chinese merchants, or the American-style motel called the Vlad Motor Inn (\$175 a night).

There are many good Japanese, Korean, Chinese and Russian restaurants in town. And an Australian restaurant, Captain Cook, offers good steak or lamb chops. Dinner for two: \$100, vodka included.

Outside Vladivostok



The Bay of Peter the Great, south of Vladivostok

Unmatched wilderness; enormous tourist potential.

the coastline is beautiful and desolate. It looks rather like northern California might have looked before development set in. Swimming? The ocean water in summer is quite warm, about 75 degrees.

But there's more to the Russian Far East than coastline. Inland is the taiga, the legendary Siberian forest. Near Vladivostok, it has many of the characteristics of a subtropical rain forest. The local nature preserves are a good place to try to catch a glimpse of the elusive Siberian tiger or the rare Amur leopard.

For hunters there is the local brown bear (which can be bigger than the American grizzly), the red deer (similar to an elk) and wild boar. With enough money, a license is easy to get. The rivers are filled with fish—lots of trout and salmon, as well as exotic species, such as taimen and kunja.

Bird-watching? Lake Khanka, on the Chinese border, is a stopover for migratory birds. You'll see lots of exotic species, like the Siberian crane and the Chinese merganser.

A four-hour flight east

from Vladivostok gets you to the spectacular Kamchatka peninsula. It contains the Valley of the Geysers, second only to Yellowstone in geyser activity. You can trek past active volcanoes like Mount Kliuchevsky or cruise along the Bering Sea coast to see polar bears, arctic fox, whales and walrus.

Heading west, deeper into Asian Russia, a four-hour flight will get you to the crystal-clear waters of Lake Baikal. One of the natural wonders of the world, it contains one-fifth of the earth's supply of fresh water.

Alaska Airlines, Korean Air Lines, Japan Air Lines and Aeroflot offer service into the Russian Far East. A few American outfits run tours there. New York's American Museum of Natural History offers summer boat tours to the area. Kent, Wash.-based R.E.I. Adventures runs sightseeing and trekking tours.

For hunting, fishing or whitewater rafting, Los Angeles-based Uniworld or Anchorage-based Ouzel Expeditions offers travel packages. —P.K.

Sea-Land is heavily involved in container shipping. All Alaskan Seafoods has a joint venture with Dalmoreproduct, the largest fishing company in the Russian Far East. Food retailers like Associated Grocers and American Globus are busy shipping groceries and setting up distribution networks.

But Weyerhaeuser is still waiting for a response on two logging projects in the Primorsk and Khabarovsk regions. The U.S. company would invest \$500 million and aim at producing 70 million cubic feet of timber products annually.

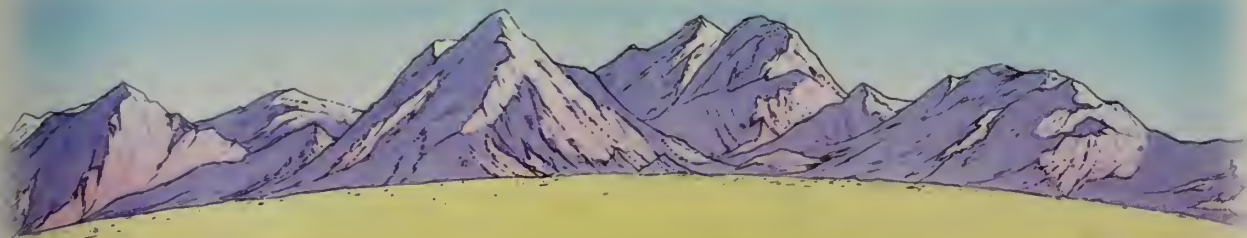
Russia's Far East is something of a paradox. On the one hand, the Russian Pacific region would like more

autonomy from the dead hand of the Moscow bureaucracy. On the other hand, it acutely feels the need of Russian protection against the perceived threat from the South. In the end the fear—no, paranoia—about China will probably overcome the separatist urge. Russia needs Siberia, but Siberia needs Russia, too.

Meanwhile, the Koreans patiently negotiate over what may well be the biggest deal yet in the Russian Far East: a project to develop the natural gas, oil, coal and nonferrous metal resources of Yakutia/Sakha, in the center of the Russian Far East. A consortium of 13 Korean companies, including Daewoo, Samsung and LG

Group, has already spent \$20 million on feasibility studies. The group plans to invest \$22 billion over ten years to construct a 3,000-mile pipeline, highway and railroad from Yakutia/Sakha to the Vladivostok region, and then down to South Korea, thus knitting the entire area closer together and providing energy for future development.

Predicts Daewoo's Kim: "Once you get that pipeline, highway and railroad, the whole atmosphere [of the Russian Far East] will change." He's right. The Russian Far East will be to the early 21st century what the American West was to the late 19th century.



Before you can succeed, you need to learn what direction to take.

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Want to minimize your chances of going head-to-head with an IRS auditor? Here are the latest tips.

Yellow lights and red lights

WHETHER YOU'RE INNOCENT or not, tax audits are too often nasty, brutish and long. And expensive. "I have a client with a legitimate \$730,000 loss from the early 1980s that the IRS wrongly nailed as a tax straddle,"

says CPA Ralph Anderson of M.R. Weiser & Co. in New York. "The IRS is about to allow the loss, but it has taken ten years and cost \$450,000 in fees." Even small matters can cost \$500 and up to straighten out, says CPA Douglas Stives of Curchin & Co. in Red Bank, N.J.

So it pays to avoid waving any red flags in the Internal Revenue Service's face. But how? Here is what we know.

Overall, your chance of being audited is small. This year 115 million individual returns will be filed but only 1.1 million will be audited. The audit rate is highest in Alaska, Nevada and Wyoming. It's lowest in Massachusetts, Maine and Rhode Island.



It's also higher for people with high incomes. The audit rate is 0.9% for taxpayers with adjusted gross income between \$50,000 and \$75,000, but 4% for those with incomes above \$100,000. Like Willie Sutton, the IRS goes where the

money is.

How does the IRS choose its audit victims? Unless you are part of a special group that the IRS is targeting—such as lawyers, waiters, auto dealers or Hollywood producers—chances are pretty good that your return has been selected by a scoring system based on what statisticians call a discriminant function. Banks and mail-order firms use such techniques to decide who gets a credit card, mortgage or junk-mail catalog.



The IRS' discriminant function analyzes returns for all individuals, corporations with less than \$10 million in revenue and partnerships with ten or fewer partners. It compares the entries (or lack of them) on your return with various norms. The greater the discrepancies, the higher your total score. The highest scorers are audit candidates (see box, opposite).

What are the norms? In theory, they are secrets as closely guarded as the formula for Coca-Cola. In fact, however, tax pros have some idea of what will cause the IRS computer's pulse to race.

Amir Aczel, a statistics professor at Bentley College near Boston, underwent a horrendous audit for a 1989 return. Inspired by his experience, he used his knowledge of statistics to try to crack the IRS scoring system. By writing to CPAs across the country, Aczel obtained copies of 1,200 real tax returns

(without identification), of which 600 were audited by the IRS. Then he compared data from the audited returns with data from the unaudited returns.

Aczel found that, in general, taxpayers should pay careful attention to three schedules: Schedule A (itemized deductions), C (profit or loss from a business) and F (profit or loss from a farm). Using his 1,200-return sample, Aczel devised "safe," "cautious" and "unsafe" zones for deductions for each schedule.

For Schedule A, which is where you deduct such things as charitable contributions, state taxes and mortgage interest, Aczel figures that a taxpayer has a very low chance of attracting the IRS' notice if his or her deductions are less than 35% of adjusted gross income. From there to 44%, the light turns yellow. Go above 44% and you're asking for trouble.

Note that these limits are far more generous than the average itemized deductions claimed by taxpayers (see table).



Keep a low profile

Adjusted gross income	Total itemized deductions*	Taxes	Interest†	Charitable contribution
\$25,000 to \$30,000	34.8%	8.3%	14.5%	3.9%
30,000 to 40,000	28.1	7.8	12.6	3.5
40,000 to 50,000	24.7	7.3	10.8	3.1
50,000 to 75,000	21.3	7.2	9.4	2.6
75,000 to 100,000	19.9	6.9	8.3	2.9
100,000 to 200,000	18.5	7.7	7.2	2.8
200,000 and over	14.3	8.1	4.0	3.3

*Reflects both some categories not shown (such as casualty losses) and certain adjustments, including one that trims the total by 3% of income over \$108,450. †Substantially all is mortgage interest.

Source: Statistics of Income Bulletin, IRS, Fall 1994.

Do your tax deductions stick out? Here are average deductions as a percent of adjusted gross income for 1993 returns.

The ultimate audit

THE WORST AUDIT is one that nobody, no matter how careful, can avoid: the "taxpayer compliance measurement program" audit, TCMP for short. Every five years the IRS does a soup-to-nuts audit of 150,000 hapless taxpayers chosen at random. The IRS says its aim is not to collect more revenue but to

get data to update its audit scoring system (*see story*). This is one of those years. Letters will begin going out in October.

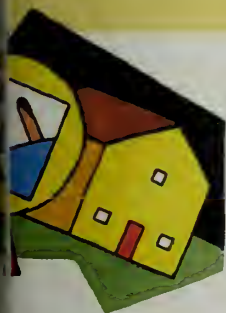
What's a TCMP audit like? We asked former IRS Commissioner Lawrence Gibbs, who was a tax lawyer in Dallas when the IRS roulette wheel landed on his number during the early 1980s. Gibbs says the auditor made him verify each mortgage interest pay-

ment and show that unidentified bank deposits were not hidden income but rather reimbursed expenses. But he didn't have to produce his children, as some TCMP auditors ask of taxpayers with dependent deductions.

Gibbs keeps neat records and plays by the rules, so his TCMP audit took only a day and a half and he didn't owe an extra dime.

Gibbs was also lucky

that he was in the tax business. For nonprofessionals, a TCMP can be brutal. "These audits can easily take five or six times as long as a normal exam," says David Marcus, a CPA with Paneth, Haber & Zimmerman in New York. "And they cause problems between us and our clients. I had one who owed very little extra in taxes, but his bill from me was \$10,000." —L.S. ■



For Schedule C, business profits and losses, the caution zone starts when total expenses hit 52% of gross income from that schedule. The red light flashes when they top 67%. For Schedule F, the caution zone starts when losses hit 59% of gross farm income, the unsafe zone at 71%.

What if you file both Schedule A and Schedule C? Then Aczel suggests that you combine the Schedule C percentage with 1.5 times the Schedule A percentage. Caution point: 105%. But he emphasizes that it's still important to make sure that each schedule by itself falls below the danger point.

Aczel wishes he could have taken his own advice. The year he was audited, his Schedule C expenses for writing textbooks were 85% of his Schedule C income, far into the red zone. (For more on Aczel's findings, see his *How to Beat the IRS at Its Own Game*, Four Walls Eight Windows, 1994.)

Tax accountants offer these further tips on how you can minimize the risk of an audit.

Pay attention to details. Use the mailing sticker the IRS provides to avoid having a key-punch operator make mistakes typing it in. Be sure to assemble the schedules in the order the

IRS specifies in the upper right corner of each. Avoid round numbers where they don't make sense—such as with income—and use them where they do—as with charitable contributions. "Nobody gives \$9,099 to a college," says New York CPA Stuart Kessler of Goldstein Golub Kessler.

Explain things that seem odd or suspicious. It is rare, for example, that affluent taxpayers have enough medical expenses (i.e., beyond 7.5% of adjusted gross income) to qualify for a deduction. If you do, consider attaching a letter explaining why. But don't tell the IRS more than it needs to know. "Never explain that a \$200 deduction was for basketball tickets, when 'entertainment expense' would do," says David Marcus, a CPA with Paneth, Haber & Zimmerman in New York.

Beware the home office deduction. Experts say it's an open invitation to IRS harassment. Consider the case of a client of M.R. Weiser's Anderson. He took a totally justified \$36,000 deduction for a home office for his real estate business in 1989. But defending the deduction, which the IRS allowed in full last year, cost him \$55,000 in fees.

Beware casualty losses. Especially if they don't come from a general disaster such as an earthquake or flood. With casualties and thefts, the limits on deductibility



are so stringent that the IRS figures hardly anybody legitimately qualifies.

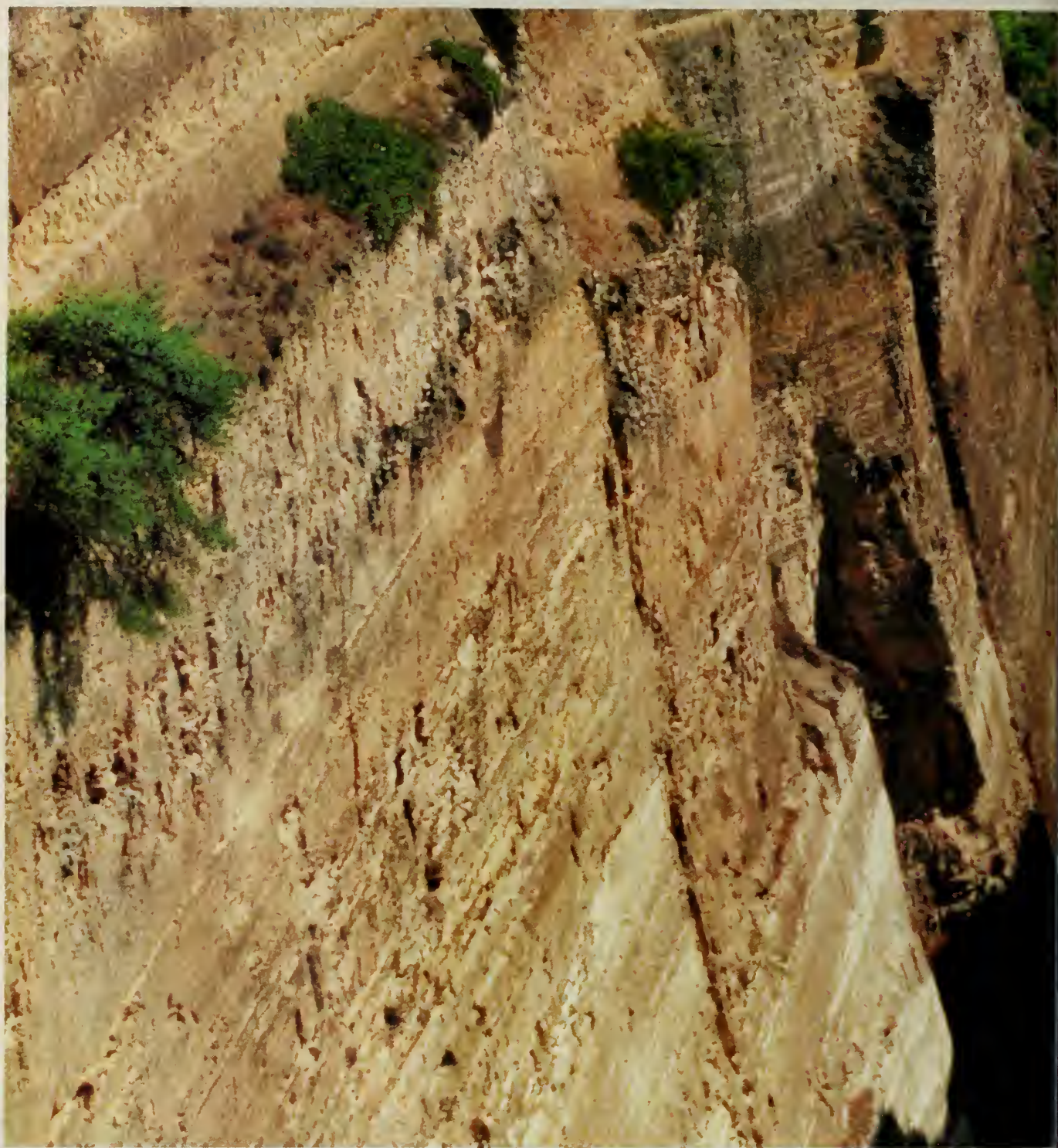
Be careful with charitable contributions, especially those of property. A new rule this year says you

must have a receipt from a charity—not just a canceled check—in your hand when you take a deduction over \$250. If you round up the receipt later on, then the IRS can disallow it. Keep contributions of property below \$500—unless you're donating a Picasso—so you don't have to attach an itemized list to your return or an appraisal. And if you are especially charitable (more than, say, 12% of income), be prepared to document it.

Don't let your enemies know your tax sins. The IRS sometimes pays small cash bounties to tipsters. For many of these pigeons, their biggest reward is putting the taxpayer through hell with the IRS. Most information comes from scorned lovers or ex-spouses.

Don't be famous. As Willie Nelson, Darryl Strawberry and Leona Helmsley can all attest, the IRS likes to get maximum publicity from its limited auditing resources. Keep a low profile. Don't brag to a reporter about your tax shelters. —L.S. ■





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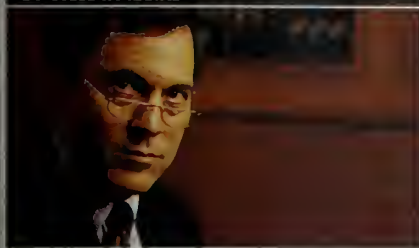
A positive a++itude

Clarton

The Czech miracle has a flaw. Ironically, this flaw makes Czech assets even more attractive.

The right kind of problem

BY STEVE H. HANKE



Steve H. Hanke is a professor of Applied Economics at The Johns Hopkins University in Baltimore.

THE ANNUAL MEETING of the World Economic Forum in Davos, Switzerland is one of the great watering holes of the international chattering class. January's meeting afforded me the opportunity to visit with my old friend and occasional collaborator, Václav Klaus, prime minister of the Czech Republic.

As we parted, Václav offered me a copy of his most recent book, *Rebirth of A Country: Five Years After* (Ringier, Prague, 1994). That little gem explains why the Czech economy remains one of the healthiest emerging economies. The Czech case represents a stark contrast to Mexico, where investor confidence is wanting and asset prices are likely to keep falling.

The policies that have been the key to the Czech Republic's success are:

1) The Czechs have been paragons of fiscal virtue. The budget has been roughly balanced since 1990, with a surplus of 1.1% of GDP in 1994. This fiscal prudence has kept the official foreign debt contained in a range of \$3 billion to \$4 billion. If export credits are included, foreigners actually owe the Czechs more than the Czechs owe them.

2) Thanks to the Czechs' mass privatization program, which was

launched in January 1991, the private sector now accounts for over 60% of GDP. This is a long way from 1989, when 97% of GDP was generated by state-owned enterprises. This represents the best privatization record in Eastern Europe.

3) The labor market has been deregulated. As a result of this new flexibility, the Czech unemployment rate is about 3%, compared with 10% to 15% in most Eastern European countries.

There is, however, one area where Václav and I disagree: exchange rate regimes. Here Václav has a problem on his hands. But, if one has to have a problem, it's the right kind to have. If he solves it as I think he will, investors stand to make good money on Czech stocks and bonds in the year ahead.

There are only two free-market regimes for international payments: the floating-rate system and the fixed-rate (currency board) regime. Václav opted for a third system. In 1990 the Czechs devalued the koruna and pegged it to a

**There is only one solution:
The koruna will have to
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by as much as 20%.**

U.S.-dollar-dominated basket of foreign currencies. This left the koruna undervalued by 50% to 75%, in terms of purchasing power parity.

The Czech Republic's pegged system is not a free-market regime. It requires the central bank to simultaneously manage the exchange rate and the domestic money supply. As Josef Tosovsky, the able governor of the Czech central bank, recently confirmed to me, the task is becoming

more difficult by the day.

Led by capital inflows (the result, remember, of Václav's skillful management of the economy), the overall balance of payments is in surplus and growing. To manage the koruna peg, the central bank must buy foreign exchange and sell koruna at the pegged rate. Consequently, in the past two years the central bank's foreign exchange holdings have exploded from \$1 billion to \$6.2 billion.

In an attempt to sterilize the monetary impact of this increase in reserves and keep them from generating inflation, the central bank has had to resort to larger and larger issues of its own paper. This has mopped up some of the liquidity created by capital inflows. But not enough. Inflation is running about 10.5% annually, and increasing. This spells trouble for the central bank.

The game is coming to an end. Total credit is growing at over 16% on a year-over-year basis, with the unsterilized foreign component of that increase accounting for almost 70% of the total. If the central bank keeps issuing koruna debt to mop up the monetary effects of inflowing foreign exchange, domestic interest rates will rise, luring more hot money into the Czech Republic and fanning inflation higher.

To control both liquidity and inflation, there is only one solution: The koruna will have to be revalued, probably by as much as 20% against its dollar/mark basket. Over time this will reduce the overall balance-of-payments surplus and remove the inflationary stimulus.

Václav has not said he favors revaluation. But given the choice between higher rates of inflation and revaluation, I am convinced he will choose the latter—probably within the next six months.

The eventual revaluation of the Czech currency presents an opportunity for investors. Koruna-denominated bonds with two-year maturities are currently yielding about 11% and are attractive. So are shares in the investment privatization funds, many of which are trading at discounts to their net asset value. Shares in the Czech Republic Fund, currently trading at about a 17.5% discount from net asset value, offer a convenient way to play the Czech free-market success story. ■

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PART ONE

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Life insurance has become more complex since the days when the only question was whether to buy term or whole life. But it has also become increasingly flexible and cost-effective. These days, whether your goal is to protect the financial health of your family, retain key employees, or secure the continuity of your business, life insurance company products can play a critical role at the epicenter of financial services.

Family Financial Protection

Of course, life insurance continues to serve its historic function as a source of financial protection in the case of the untimely death of family breadwinners.

Theresa M. Stone, president and chief executive officer of Chubb LifeAmerica, says that because of the high costs of educating children and financing retirement, "The need for individual life insurance coverage has never been greater." But, she adds, "Our changing lives demand new approaches to providing traditional life insurance protection." Those responses have been forthcoming — life insurance companies have created a whole new set of products designed to accommodate changing demographic patterns and social mores. "The 'one-size-fits-all' approach of the past has been replaced with valuable custom-designed products based upon the unique needs of the various market segments," notes Ron Wagley, senior vice president and chief agency officer of Transamerica Life Companies.

For example, Patrick C. Smith, director of estate and business planning at the ITT Hartford Life Insurance Companies says, "One key trend that we have seen for many years now is the growing incidence of dual-income households. Many American families now have two wage earners and are really dependent on those two sources of income to pay their mortgage and to pay for their children's college education."

In response to the proliferation of two-income families, the life insurance industry has created several innovative products. For example, Smith of ITT Hartford notes, "The Hartford and others market first-to-die coverage, which insures two people, and pays death benefits of the first to die." In two-income households, whichever spouse dies first, Smith continues, the survivor needs financial protection in order to maintain the family's lifestyle. First-to-die coverage provides it by replacing the financial contribution of either spouse.

Conversely, in Chubb LifeAmerica's Duet policy, and in similar policies offered by other underwriters, two lives are insured but in this case, the benefits are paid at the second death. "The Duet policy is specially designed to cushion

the effect of estate taxes," says Chubb's Randall Craig. As Smith of ITT Hartford explains, "Most people leave everything to their spouse, but this is not the most tax-efficient way to structure an estate. You can effectively pass \$600,000 tax-free to whomever they want, but you need to utilize what is called the unified credit. If you leave it all to your spouse, you are in essence wasting some of that credit. The bottom line for many couples, especially wealthier couples, is that at some point there is going to be a tax bill to be paid, and one of the most efficient ways to pay it is through second-to-die coverage." He adds that "The proceeds are often received by a trust, which receives it tax free and uses it to pay federal or death taxes."

Life insurance is part of the indispensable troika of family financial protection, along with automobile insurance and home insurance. "Your home is typically your biggest investment," remarks Joseph Galardy, assistant vice president in the Personal Insurance Division at Fireman's Fund. "Proper protection gives you peace of mind. It helps you get on with your life if your home is damaged in a disaster."

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The key question consumers face in buying any of these policies has always been: How much is enough? In the case of homeowners insurance, Galardy says, the issue is whether to pay for market value or replacement value. In the case of life insurance, there used to be simple rules of thumb, such as buy life insurance equal to seven times your annual income. Now more complicated rules apply. The amount of life insurance you need depends on a wide range of personal circumstances: Is your spouse able to generate a substantial income without you? Do you have children to educate? Beyond your current nuclear family, do you have financial responsibilities to children from a previous marriage, siblings or aged parents? Instead



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of family, is there a "significant other" to provide for?

The increasingly complex network of contemporary relationships has been paralleled by the development of increasingly variegated insurance products. "We are seeing growing sophistication among consumers in terms of choosing insurance products and the carriers that provide them," Smith says.

Smith adds that "We're also seeing a distinct trend toward products that have a long-term ability to perform better for the client — these are variable products, such as variable life insurance and variable annuities in which the client is investing in several underlying mutual funds. In all of these, the idea is that over the long term, the premium dollars will work harder for them than would be true in fixed-interest-rate products."

While term insurance is pure insurance coverage, most long-term coverage puts aside some of your premium payment to pay for insurance coverage later on, when costs rise because of increased mortality risk. Traditionally, insurance companies have invested these funds and paid policyholders a dividend at the company's discretion. Increasingly, however, people are taking charge of this investment process through variable policies in which the investment results are directly applied to the premiums. In addition, universal life lets you move both your premiums and your amount of coverage up or down in response to the investment results and your changing needs for financial protection.

Chubb Life's variable universal life plan combines the flexibility of universal life protection with investment funds managed by such well-known mutual-fund managers as Fidelity,

Phoenix and Janus. And CIGNA Variable Universal Life insurance, called ACCRU, "utilizes the tax-deferred status of life insurance to build savings while making money available for life cycle needs through policy loans or partial withdrawals," notes Roy H. Bubbs, senior vice president of CIGNA Individual Insurance.

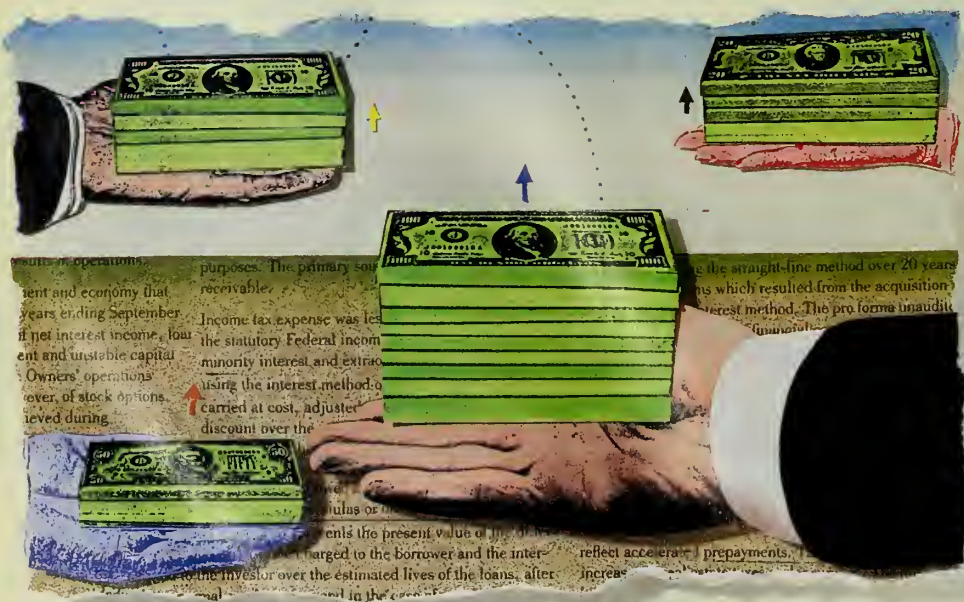
For many Americans, variable and universal insurance products give them a sense that they are in greater control of their financial destiny. That's why variable life's share of total life insurance premiums has climbed from 3% in the early 1980s to four times that level, according to the Life Insurance Marketing Research Association. Experienced and diversified companies like Travelers can tailor variable policies to meet the needs of individuals with a wide range of financial needs and risk tolerances.

The changing American demographic profile now encompasses an expanding range of lifestyles as well as lifespans; it reflects new needs and aspirations. But life insurance is still the touchstone of personal financial protection. "Given the full range of insurance coverages," says Edward M. Berube, senior vice president of CIGNA Individual Insurance, "from term to permanent, whole life to universal and variable life, and individual life to survivorship — one variation or another will meet the coverage needs of most individuals."

Long-Term Savings Opportunities

Life insurance products were originally focused on a very specific event — death of a breadwinner — but life insurance is proving to be increasingly useful for building assets for retirement and other long-term financial needs.

There are any number of ways to save and invest, from "putting money under the mattress to speculating on pork-belly futures, but life insurance has some unique attributes that make it an attractive vehicle for those with long-term investment goals. As CIGNA's Berube explains, "As a result of public policy, growth in life-insurance cash values are tax-deferred and death proceeds are tax free. Variable life, whole life,





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universal life and variable universal life insurance each benefit from these features."

The Tax Reform Act of 1986 eliminated almost all tax shelters and tax-advantaged investment opportunities. The only ones that remain are municipal bonds, a few exotic investment programs, and the "inside buildup" of funds accumulated through insurance vehicles. Berube says of insurance, "No other product provides both income-tax-free proceeds at death and tax-deferred growth of cash values during life."

In addition to offering life insurance itself, life insurance companies are also the nation's leaders in providing annuities. Annuities require making one or a series of payments and at the end of a specified period, you can collect either a lump sum or a lifetime stream of income. If you don't live long enough to collect on the annuity, your beneficiaries receive a death benefit like insurance. The insurance companies and the Internal Revenue Service both impose penalties for early withdrawals, but as in the case of insurance, there are no taxes on the investment earnings as they accumulate. Thus, for a growing number of people, annuities combine the best element of investing and insurance.

As Peter W. Cummins, vice president of sales and marketing for ITT Hartford notes, "The problem with mutual funds or equity investments is that the amounts you save are diminished each year by taxes, and if you can compound on a larger amount of money, in the longer term you'll have a larger pot of assets." He adds, "If you have a big gain and pay capital gains taxes or taxes on dividends, and the following year you have a reduction in your portfolio value, Uncle Sam doesn't give that back to you."

Variable annuities provide a vehicle through which people can save for retirement using the same securities they might otherwise have chosen, but on a tax-free basis. That's why Jack Smith, senior vice president at The Guardian says, "For millions of investors, variable annuities are a more effective way to invest in mutual funds."

There's another benefit, Cummins notes: "A variable annuity allows an investor to move from one investment to another without a taxable event. As people move through their life, their risk profile might change, and they can move investments without having to pay taxes on the transfer."

Sales of variable annuities have been increasing at rates on the order of 66% per year. The benefits of tax-deferred investing increasingly are being recognized as the nation's vast population of aging baby boomers begins to think about retirement. "We have seen a trend

toward younger people purchasing our products," Cummins says. "We used to market toward 50- to 65-year-olds, but we're now marketing heavily toward 40- to 55-year-olds because they realize that by the time they get to be 65, Social Security will be a smaller and smaller amount of their total retirement income." And employer pension plans are also less likely to provide all of the income many people expect for their retirement. As more people think about retirement planning, they see annuities can efficiently maximize their retirement resources.

**Insurance companies
have become increasingly
important as sources of
investment vehicles for
401[k] plans and other
defined-contribution
alternatives.**

While there are some who think annuities are only for the rich, a survey by the Gallup organization a few months ago found that 80% of annuity owners had incomes below \$75,000. The survey also found that 86% of respondents planned to use their annuity savings for retirement income or to avoid being a burden to their children.

"I think the primary use of variable annuities is and should be long-term retirement planning," Cummins says. But regardless of the purpose, because of an annuity's tax-deferred structure, "It's a terrific product for allowing a household to put assets away for the long term," he concludes.

Employee Benefits

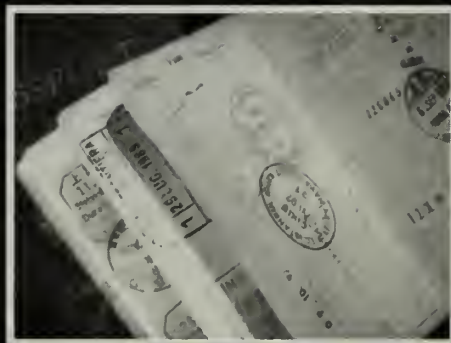
Insurance products are also an increasingly essential part of employee benefit packages, not just in the form of life insurance itself but also as the foundation of savings and retirement plans. Because of their experience as long-term investors, life-insurance companies assumed an important position in managing the assets of defined benefit plans as they began to emerge a half century ago. As the role of defined-contri-

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fied plans in terms of the ability to provide substantial benefits for business owners or highly compensated executives."

Contributions to a "qualified" retirement plan are tax deductible for the employer, but the IRS imposes a number of restrictions on qualified plans regarding contributions and withdrawals. For example, last year \$150,000 became the maximum salary on which pension contributions could be based, down from \$235,840 in 1993. As a result of these limits, more employers are offering nonqualified retirement plans for senior managers.

bution plans has grown, insurance companies have also become more important as sources of investment vehicles for 401[k] plans and other defined-contribution alternatives.

For many employees, a variable annuity is an ideal way to set aside funds for retirement. "The biggest market for variable annuities is the 403[b] market," notes Cummins of ITT Hartford. These plans are the equivalent of 401[k] plans for employees of schools, hospitals, and other nonprofit institutions. In addition, Cummins notes, variable annuities are valuable "when an employee leaves a company, gets a payout from a pension fund in a lump sum, and does an IRA rollover into a variable annuity."

Adds Arlene Falk Withers, president of the Living Benefits Division of Transamerica Life Companies, "Although tax changes in 1986 eliminated the tax-favored status of annuities owned by corporations, annuities can be made available to employees as a way to encourage savings for retirement at no expense to the employer, unlike pension plans and most 401[k] plans."

While life insurance companies play a central role in many broad-based retirement plans, their products have unique qualities for compensating senior executives, an issue which has become very important to many employers. As Smith of ITT Hartford notes, "Every tax act since 1980 has held some bad news for quali-

According to a survey undertaken by Buck Consultants of New York last fall, 63% of employers who responded, and 73% of large employers, sponsored at least one nonqualified executive retirement plan.

The reason is clear. As Randall Craig of Chubb LifeAmerica notes, "Individual life insurance is not subject to the increasingly restrictive limits on qualified plans. It can retain and motivate key employees, and provides generous amounts of supplemental retirement income." Moreover, Smith of ITT Hartford adds, "Life insurance is flexible in terms of design, it provides a tax favored and cost-effective means of providing living benefits to executives or survivor benefits to the executive's spouse, and, if properly structured, life insurance can provide a cost-recovery feature for the company."

Among the many mechanisms commonly used in deferred compensation funding, rabbi trusts have become prominent. Rabbi trusts, so named because the first one was set up for a Baltimore rabbi in 1980, increase the security of the benefits by establishing an irrevocable trust earmarked for the employee. Consequently, the benefits can't be taken away if the corporation is taken over. According to Patricia S. Bauer, a senior vice president of CIGNA Individual Insurance, "Life insurance as the funding mechanism inside the rabbi trust can help to secure the executive's benefits as well



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* Financial Information concerning The Guardian Life Insurance Company as of 12/31/93: Admitted Assets = \$9,070 million; Liabilities = \$8,086 million (including \$6,041 million of Reserves); and Surplus = \$984 million.

** Equity products are offered through Guardian Investor Services Corporation®, an indirect wholly-owned subsidiary of The Guardian Life Insurance Company of America.

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THE 1995 FINANCIAL SERVICES REPORTS

PART ONE INSURANCE

ADVERTISEMENT 11

as providing a low-cost mechanism to the corporation providing those benefits." Corporate Owned Life Insurance (COLI) is another way of structuring these benefits. The employer buys the policy and its assets are held in the corporate treasury or in a trust, so they're not taxable to the employee.

"Another popular use of life insurance goes by the unusual name of split dollar," notes Chubb's Craig. "An employer provides life insurance coverage to selected key employees at minimal cost to the employee." At retirement, the total amount of premiums is returned to the employer, and the employee can use remaining policy cash values as supplemental retirement income. This mechanism provides benefits

ance products to fund executive benefits. Employers can realize several tax advantages and provide substantial benefits that are not available under their qualified plans."

Protecting Your Business

Businesses find life-insurance company products are not only valuable in recruiting and retaining key employees, they can also be used to protect the continuity of the business itself. The classic example is key-person insurance. Businesses as well as families have their breadwinners, and these businesses can face financial shortfalls if their rainmakers die. By purchasing life insurance covering crucial employees, the firm has tax-free income to replace the revenues these people would have generated.

Life insurance can also play a crucial role in underpinning buy-sell agreements. Everyone has heard tales of two partners who become virtual brothers in the course of running a business for 40 years. Then one dies and the other ends up in acrimonious disputes with the deceased partner's heirs. Smart partners prevent such problems with buy-sell agreements that spell out in advance how the survivor can buy out the interests of the deceased. And even smarter partners fund these agreements with life insurance. Then it's not only clear what the survivor must pay, but also how he or she can pay for it. "Funding buy-sell agreements with life insurance is a most cost-effective way to transfer business interests," says Chubb's Theresa Stone. At the Guardian, specialists can create split-dollar plans to fund buy-sell agreements, engendering further savings.

Patrick Smith of ITT Hartford adds, "Many of these products also insure more than two — ours will insure up to eight people under one policy. It pays death benefits when the first of any of the eight dies, and the remaining seven have the right to continue coverage, and so on." This approach is more efficient than having to keep buying new insurance contracts for the survivors.

In short, for businesses or households, life-insurance products remain highly flexible vehicles for solving a number of problems. Their adaptability to changing needs, their ability to fit in with a variety of underlying investments, and their tax-advantaged status have made them the vehicle of choice for more and more households and businesses seeking to get the most out of their dollars.

Written by David Glick

"without any of the cumbersome filing requirements typical of traditional pension plans," he adds. Split-dollar life insurance plans can be utilized by businesses of all sizes. Indeed, the Guardian Life Insurance Company's split dollar specialists have worked on plans for mom-and-pop businesses with a \$2,000 premium as well as multimillion dollar plans for large, publicly held corporations. Whatever the size of the plan, according to Guardian executives, split-dollar plans enable a company to provide a highly attractive benefit — and then get its money back. In releasing the results of the Buck Consultants' employer survey last fall, Stephen D. Diamond, a consulting actuary at Buck, noted, "We are seeing a significant interest in the use of insur-



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YOUR FUTURE
TO a COMPANY
THAT HAS
LESS of a HISTORY
THAN YOU DO?



ANNUITIES

401(k)

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INSURANCE**

At ITT Hartford we have a long history of helping people secure their future. 185 years to be exact. And when you're planning for retirement, that kind of experience makes all the difference.

You see, over the years, we've learned how to develop products that

work harder for you. From our life insurance policies to our innovative 401(k) plans and annuities. As a matter of fact, we're the number one issuer of annuities in the country.

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ITT HARTFORD

There's a malaise abroad in adland,
but the agencies are starting to do something about it.

Makeovers on Madison Avenue

AFTER TOILING FOR YEARS at mega ad agencies like McCann-Erickson and BBDO, Paul Cappelli hung out the shingle on his own small creative boutique, the Ad Store, in October 1993. To tout his new shop, Cappelli plastered posters at New York City construction sites. The posters read: "Advertising Sucks."

Cappelli's poster went on to argue, of course, that his own advertising was among the few exceptions. But the message hit a raw nerve on Madison Avenue, which has come down with a severe case of the mopes.

"A malaise has crept in—it's depressing," sighs Kenneth Olshan, who heads ad agency Wells Rich Greene BDDP, whose clients include Ford and Chase Manhattan Bank. Agrees Tom Cordner, creative director of Team One Advertising, the ad agency for Lexus: "Advertising is in a total state of confusion. Everybody's saying maybe we're just not it anymore."

It's not that the revenue numbers are bad. In the U.S., advertising expenditures rose 7% to a record \$149 billion or so last year. Ad forecaster Robert Coen of McCann-Erickson expects that domestic spending will hit \$159 billion this year.

But everywhere you go in adland, you hear the same complaints: Ad agencies, structured pretty much the same way since they first appeared 100 years ago, have grown stodgy and bloated. The result is often work that comes out slowly, and dull. "There are so many layers in producing ads that it's like cutting salami—you take a slice off here, you take a slice off there, and soon you have no salami,"



says Wells Rich Greene's Olshan.

David Vadehra runs Video Storyboard Tests, which measures the popularity of television commercials. His numbers are at an alltime low. "What did advertising have to show for itself in 1994? Nothing!" says Vadehra. "We didn't have anything to say."

Recognizing the problem on the hands, the big agencies are looking for ways to attract more creative people, get ideas flowing more freely and turn out more compelling messages for their clients.

At Wells Rich Greene one of the first moves was to break down the

Chinese Wall that has traditionally separated the creative and the account management departments. The two groups have always been uneasy bedfellows—the account types have long viewed the creatives as self-indulgent weirdos, while the creatives suspect the account types are spineless tools of the client.

Wells Rich recently abolished the two departments as separate fiefdoms and has mixed everyone up. Now the

hard, chairman of the DDB Needham agency. “The clients became quite impatient with all the in-house squabbling, and it took its toll on creative work.”

Like Wells, DDB Needham has teamed up its creative and account departments to tailor specific advertising services to clients. That could mean one client gets promotional and media services but no advertising, while another gets advertising creative work alone. “The evidence is irrefutable that one size no longer fits all,” says Reinhard.

DDB Needham has also started carving out nimble miniagency groups within the parent agency and dedicating their services to a single client—like GTE and the Colombian Coffee Growers Association. “Before, a creative director might work on a candy account in the morning, on computers in the afternoon, and on airplanes and tires the next day,” says Reinhard.

Coca-Cola certainly agrees. For years it had parked its approximately \$350 million U.S. account at McCann-Erickson. But since 1991 it has been adding agencies in an attempt to find somebody—anybody—who can come up with punchy stuff. Coke now employs some 30 agencies around the world, a development that does not inspire great confidence in adland.

“Coke is saying the old structure just isn’t working anymore,” says Team One’s Corder. “To agencies, Coke’s example has been shattering.”

It certainly was to McCann. After Coke started spreading its ad money around, the agency started creating independent satellite agencies inside McCann.

To date there are five. The satellites may have their own clients, or they may troubleshoot on a floundering account within McCann itself.

Late last year McCann created Amster Yard, an autonomous, in-house boutique, for creative work only. “That allows us to bring in creative people who wouldn’t normally come

to a large agency, says Peter Kim, the McCann vice chairman in charge of worldwide strategy. Kim believes these new creative people will be better able to draw on the worlds of film, art and theater.

Perhaps not coincidentally, those are some of the worlds Coke has drawn on through its groundbreaking deal with Michael Ovitz’s Creative Artists Agency. The arrangement leaves Coke free to cherry pick among CAA’s stable of high-profile Hollywood talent.

Last month McCann created another new unit when it launched something called the 14th Floor, a collection of 20 senior ad strategists whose job it is to propose big marketing ideas for clients like AT&T. But

Ad agencies have grown stodgy and bloated. The result is often work that comes out slowly, and dull: “There are so many layers in producing ads that it’s like cutting salami—you take a slice here, you take a slice there, and soon you have no salami.”

Peter Kim adds that 14th Floor’s greatest impact may be on McCann-Erickson’s own clients, by stimulating zestier advertising with its strategic insights. “It’s going to act as a catalyst on the agency itself,” says Kim.

Some kind of catalyst is certainly needed, and not just for McCann. A poll taken last spring by Roper Starch Worldwide found that 74% of all TV watchers switch channels at least sometimes to skirt commercials—up five points since 1990. And 50% mute the sound to tune out commercial din—also up five points since 1990. The credibility of advertising has dropped a full six percentage points since 1990.

Says Wells Rich’s Kenneth Olshan of the wrenching makeovers now being undertaken by his and other agencies: “It’s scary, but we can’t turn back.”

—J.L. ■



creative directors and staffers are free to deal directly with the client, as are the account managers.

That may not sound all that radical, but it marks a big change in the traditional ways big agencies do business. “It’s high time to abolish these arrogant structures,” says Keith Rein-

How do you get the whole world to adopt your technology standard without inviting in a lot of competitors to take your business away? That's the challenge for Adobe Systems in desktop publishing.

Standard bearers

By Jeffrey Young

THERE ARE TWO WAYS to make money in computer technology. One is to own a standard outright, the way Nintendo owns a game format. No one can make a game that runs on a Nintendo player without paying tribute to Nintendo. The other is to play on a fairly open field but run faster than all the other players. Thus, Intel can't stop imitators, but by the time they have knocked off one of its microprocessors Intel has moved on to the next generation.

Adobe Systems, a Mountain View, Calif. developer and vendor of desktop publishing software, finds itself somewhere in the middle. It has opened the playing field a bit by putting its PostScript and Acrobat standards in the public domain, as a way of making those standards more universally accepted. But it can't afford to lose its dominance in the field.

PostScript, a sort of computer language that tells printers how to format a page and what kind of type fonts to use on it, remains a core money-maker for Adobe. This language accounted for the lion's share of Adobe's \$157 million in licensing revenues last year, mostly in the form of fees from manufacturers of printers that are equipped to understand PostScript.

How do you get license fees for something that is in the public domain? By selling the software that translates PostScript into electronic commands that a printer can handle. That is, Adobe sells not the language but interpreters for it—a subtle but important distinction. Says John Warnock, chief executive of Adobe:

"From the beginning, we believed that it was our implementation of the page and printer description lan-

guage, not the PostScript language itself, that was our key advantage. We published the complete specification for the language. Anybody else could use it, build products around it, improve it. We figured we'd have to work harder for our customers—the laser printer manufacturers who

bought our interpreters—and innovate faster than our competitors—anybody who wanted to clone our products—in order to stay in front."

It's possible for a standard-setter to be too open. IBM created a standard for personal computers in the early 1980s that it deliberately left open, by way of getting its design more universally accepted. The standard is all but universal, yet IBM lost control of the IBM-compatible PC business to clone makers. Hayes Microcomputer Products created "Hayes-compatible" as a standard in modems, yet ended up in bankruptcy court despite that success.

So far Adobe has kept the PostScript gold mine firmly in its grasp. Warnock and Charles Geschke, both computer science Ph.D.s, cofounded the company in 1982 and met with almost instant success. Not counting a nonrecurring charge, their firm net-



ted \$86 million last year on revenue of \$597 million. Adobe overcame a swarm of PostScript clone makers, which at one point numbered about 70. Today there are only a handful, with not even a 10% share of the market for PostScript interpreters.

But in 1993 PostScript revenues fell for the first time on a year-to-year basis. "Our units sold were increasing more slowly than printer prices were dropping," recalls Geschke, who serves as president of the company. "Since our royalties are based on sales price, we were hurt."

Indeed, sales of desktop publishing software were off 26% in the first three quarters of 1994. The professional desktop publishing market was becoming saturated and PostScript was already the standard. To find growth Adobe would have to develop other territory.

So in 1993 Adobe released a second computer standard, called Acrobat. Acrobat is an attempt to be a universal language for electronic documents. It picks up where PostScript leaves off, with specifications for not just type fonts and sizes but any element of a page: words, pictures, charts. With this new standard, Adobe declared, documents created by any personal computer could be stored, shared and printed, whether or not the recipient had the programs that created the material originally, no matter what brand of computer or operating system the viewer was using, and in all their full-color visual glory.

A standard, though, is more than a computerized formula; it also means wide acceptance of that formula. This time around Adobe fell far short of wide acceptance.

Why was Acrobat a flop in its first

incarnation? Perhaps Adobe was too greedy. Although it tried to make its new formatting standard attractive by putting the specifications for it in the public domain, Adobe announced that it would charge users not only for software used to put documents into the universal Acrobat format but also for software to be used by the recipients of those documents to view them. It was like the cellular telephone operators' practice of charging customers for receiving calls as well as making them.

Last year Adobe put out Acrobat 2.0. Now, viewer software is free. The new Acrobat also has features the first one lacked, such as a security system that keeps electronic documents away from prying eyes, and a searching function that enables users to sift through a library of documents looking for a particular topic or graphical element. But Acrobat is still far from the overnight success that PostScript was. It will probably be several years before it contributes significantly to Adobe's profits.

So Warnock and Geschke are seeking universality in a different direction—with a wider product line. Last year they spent \$430 million in stock to acquire Aldus Corp., owner of PageMaker. That's a program that enables a desktop publisher to lay out a page with its headlines, neat columns of type and so on. Typically a PageMaker user outputs his pages onto a PostScript printer—and may have used some other Adobe product, such as Illustrator or PhotoShop, to create the elements of the page. So the product lines are complementary.

More important, Aldus' largely retail marketing complements Adobe's strength in dealing with wholesale customers, namely, printer manufacturers, and with graphics professionals who buy Adobe's illustration and design tools. With the merger with Aldus, Adobe has a broader retail product line that includes photo editing, video display, visual databases and illustration.

It isn't easy to define a new computer standard and get the world to adopt it. If Adobe can't do that with Acrobat, it will have to expand its territory in a more conventional fashion, by further pushing out the boundaries of its product line. ■



Adobe Systems Chief Executive Officer

John Warnock (left)

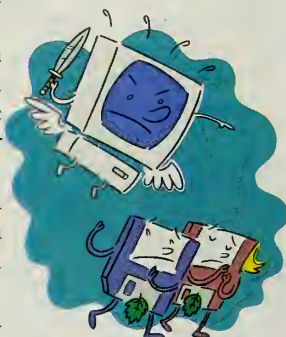
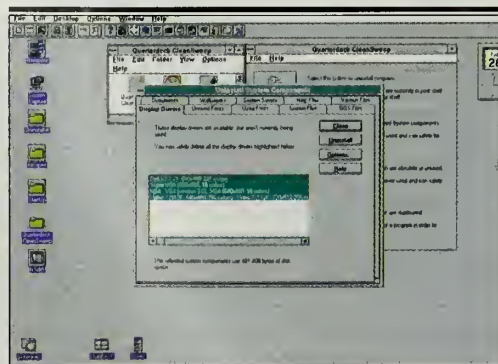
and President Charles Geschke

It's going to take some gymnastics to get Adobe Acrobat off the ground.

By David C. Churbuck

A year later, you have tired of the new program and want to clean house. Not easy. You've forgotten all

They zap unwanted software and restore system files. Some uninstaller programs work best if they are in place before you add a new application. But even if you buy the uninstall program after the fact, it can usually guess at what internal changes

[illegible]

Uninstall-It! (top) and CleanSweep
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uninstall program? Clear
Sweep has the ultimate in exis-
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In any business, innovation is the only sustainable competitive advantage. That lesson of economic reality is what is behind the **Ohio Jobs Creation Act**, clearly America's most successful strategy for business development.

The Act, highlights of which are outlined on back, has vaulted Ohio to the top of "Site Selection" magazine's ranking of corporate expansions or relocations, for the second year in a row. **In fact, our state's expansion activity last year alone was more than the combined total of 29 states** with a population of more than 125 million people.

Ohio's economic rebirth is the result of a plan that has made our state a leader, and we're committed to maintaining our leadership in economic development through programs that work for business.



I'd like you to carefully examine the details of our Jobs Creation Act. I'm confident that, as a leader in your industry, you'll find Ohio the best location in the nation for business growth.

George V. Voinovich
Governor

Financial Rewards or Job Creation

The Ohio Job Creation Tax Credit encourages investment and job creation in Ohio by giving a tax credit to companies, based on the state income tax paid by new full-time employees. Basically, it rewards a company for creating new jobs by redirecting back to the company a portion of the future revenue the new jobs will create for Ohio.

Eligible projects range from manufacturing and high technology to distribution and service companies, such as computer and telecommunications operations. Corporate headquarters projects may also qualify.

The amount of the tax credit could be up to 100% for ten years. In its first year alone, the Ohio Job Creation Tax Credit has issued credits ranging from 40 to 85 percent with terms of seven to ten years.

New Facilities and Expansions

All of the following states
combined = 901

California	Illinois
Pennsylvania	New Jersey
Massachusetts	Colorado
Connecticut	Washington
Arizona	Nebraska
Oregon	South Dakota
North Dakota	Dist. of Columbia
Delaware	New Hampshire
Maine	Vermont
Rhode Island	Hawaii
Alaska	Idaho
Montana	Maryland
Wyoming	Utah
Kansas	New Mexico
New York	

OHIO = 911

Exports: Helping Companies Go Global

In keeping with our state's traditional status as a leader in the world marketplace, the Ohio Export Tax Credit rewards companies that expand export activity.

If your company increases export sales at the same time it increases either payroll or property values, it is eligible to claim up to a 10% credit of pre-tax profit on the expanded export operation. The provision rewards even modest export increases that create jobs or raise values. All taxpayers, not just corporations that

have Foreign Sales Corporation tax status, can qualify for the credit.

Helping R&D Pay Off For Business

In Ohio we know that Research and Development is a company's investment in the future. It's also an investment in our state's success. The Ohio Research and Development Tax Credit gives businesses an incentive to make that investment.

Companies that purchase equipment for R&D activities are exempt from state and county sales taxes they would normally pay. The exemption covers equipment used in either directed or pure research.

Top 5 States 1994 New Facilities and Expansions

Ohio	911
North Carolina	539
Texas	505
Florida	265
Wisconsin	223

Support For The Tools Of Business Success

In Ohio, small and medium-sized companies now have an added opportunity to compete successfully by investing in equipment they need to get the job done. The Manufacturing Machinery and Equipment Investment Tax Credit provides an 18-month "window of opportunity" for a credit on corporate franchise or state income taxes. The credit applies for new equipment or the re-tooling of current equipment used for manufacturing.

Tax credits can total up to 20% of purchase costs. Companies making the purchases between January 1, 1995 and June 30, 1996 are eligible.

Top 5 States 1992-94 New Facilities and Expansions

Ohio	1,958
North Carolina	1,344
Texas	1,323
Florida	817
California	603

Putting Inventory To Work For Business

Ohio prides itself as a world leading location for the storage and distribution of products. To help Ohio companies compete in this arena, two measures were recently approved that provide financial incentives

for inventory maintenance and distribution.

The Warehouse Equipment Sales Tax Exemption gives a company an exemption from the state sales tax for equipment used in storing, transporting, mailing or handling inventory that is primarily distributed to retail stores outside Ohio that are owned by the company or its affiliated groups.

The Warehouse Inventory Tax Exemption is aimed at giving all distribution companies in Ohio an even playing field, no matter what their products are or how they are distributed. Under the provision, any products shipped into Ohio and held for storage here before being re-shipped out of state can qualify for an exemption from the property tax.

Growth Potential For Agri-Business

Companies involved in the meat-packing or horticultural end of agri-business can realize important tax savings because of a recent measure aimed at stimulating agri-business growth in Ohio.

The Horticulture/Livestock Structure Sales Tax Exemption exempts from the state sales tax materials used to build structures used in the meat-packing or horticultural industries.

Top 5 Metro Areas 1993 New Facilities and Expansions

Dallas	188
Charlotte	126
Cleveland	107
Columbus	86
Cincinnati	78

Team Ohio Total: 271

For More Details On Ohio's Job Creation Plan

Because of this plan, Ohio and its metro areas lead the nation in job and economic development. It proves our contention that it is the most meaningful business development program available.

To find out further details of how Ohio is prepared to help your business prosper, please contact:

Donald E. Jakeway, Director
Ohio Department of Development
P.O. Box 1001
Columbus, Ohio 43266
1-800-345-OHIO
FAX: 614-644-0745

"Obviously, both new and expanding companies are finding Ohio a fertile ground for conducting business."

— Site Selection

Proving that successful economic development isn't just a Sunbelt phenomenon, Ohio...left most other states in the dust."

— Site Selection

Photos on your desktop

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

TYPEWRITERS and ledger books are pretty much extinct now, done in overnight by personal computers and software packages. Film photography is dying a much slower death.

Digital still-cameras have been around since 1991. For the past few years Kodak has tried to sell consumers on the idea of storing photos digitally even if taken with an old-fashioned film camera. But although Kodak's compact disk storage idea, called Photo CD, has proved popular with professionals, amateur photographers prefer the old-fashioned photographs that they can pull out of wallets or paste into an album.

What's holding up the digitization of picture taking? The cost of high resolution.

Even the earliest, cheapest computer printers printed as neatly as a typewriter. The same cannot be said of digital photos. For a high-resolution color image, digital equipment is not yet competitive in cost with silver halide film.

Time is on the side of the digital medium, however. Inevitably the day will come when silver is supplanted by electronic bits.

The first inroads will come where pictures need to be edited, processed quickly or transmitted across a network. The computer has, of course,

already become a fact of life in manipulating conventional film photographs before they are printed—witness that controversial *Time* cover that darkened O.J. Simpson's skin. Now the digital medium is capturing some ground where the process starts—at the picture-taking stage.

Last year saw the introduction of several all-digital cameras. They are expensive—ranging from \$750 to \$15,000 and up—and far from able to match the resolution and color fidelity of film-based photography. They are already good enough, however, for many purposes where speed is important or where images are part of the electronic publishing process, including photojournalism, insurance claims adjusting, catalog imaging, and many military and govern-

The computer is already a fact of life in manipulating photos—witness that controversial *Time* cover.

ment projects.

The digital cameras at the top of the price range provide impressive picture quality. Kodak's newest model will set you back \$28,000, but can register an image with 6 million pixels, or picture elements, with 24 bits of color for each pixel. For a picture 5 inches by 7 inches, that translates into 150 lines per inch, the same as in a crisp color reproduction on a magazine page. That's about as good a resolution as the eye can appreciate, although it is still not the equal of the 18 million to 24 million pixels captured in a single frame of 35mm film.

At the other end of the price scale, Apple Computer's QuickTake 100, which was introduced last year, takes pictures with only 307,000 pixels and has a fixed focus. But it costs only \$749. Similar cameras are on the market or coming in the near future

from Logitech, Kodak and Casio.

What's keeping digital photography expensive is the cost of the electronic parts that capture the images. These are known as charge coupled devices, or CCDs. Kodak, however, has reduced the cost of manufacturing CCDs by a factor of ten in the past five years, and there seem to be no technical limits to further progress.

Even with today's high prices and modest resolution, the digital cameras have found a few markets. A photojournalist, for example, now can plug his camera into a laptop computer and transmit pictures from the battlefield in time for the evening edition. A real estate agent can snap photos of new house listings and download them into a database of homes for sale. If all of the manufacturers hit their targets—especially Casio and Chinon—shipments of digital cameras could surpass 80,000 units this year, up from 5,000 just two years ago.

What may emerge is a desktop photo-imaging market, similar to desktop publishing, where the camera becomes just another attachment to the PC. This is partly a software issue. What the consumer market

needs is more products like Apple's PhotoFlash, a program based on technology from Storm Software, which allows users to place photographs in documents and presentations, quickly and easily.

Even with better software and cameras under \$1,000, it will be a while before a mass consumer market develops for digital photography. Not enough users have the microprocessor power, the memory or the color monitor needed to deal with digital pictures. Nor do they have the high-resolution color printers needed for quality output. And as Kodak learned, most consumers still like carrying around shots of their spouses and kids.

Still, the notion of being able one day to use pictures as easily as we now use words is compelling. Eventually, digital photography will be a winner.

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You normally identify a market before you design a product. But Sarnoff Real Time's supercomputer proved a perfect fit for a market no one had considered.

From H-bombs to video

By Lisa Sanders

CHRISTOPHER COLUMBUS sought India and discovered America. The Pentagon secured its computers and created the Internet. Now serendipity may salvage the supercomputer.

For most of the supercomputer's life the military has been its primary customer. But the end of the cold war reduced demand for machines that could model H-bombs and stealth airframes. Commercial users haven't taken up the slack because they can make do with machines that are a little slower and a lot cheaper. Raw power is crucial in applications that must keep up with events as they happen. Interactive media, for example.

No supercomputer maker has bet more heavily on interactive media than Sarnoff Real Time Corp. of Princeton, N.J., a two-year-old spin-off from the David Sarnoff Research Center. Real Time's only product is a supercomputer that can provide video on demand to cable subscribers.

Real Time's supercomputer, called Magic, was designed to solve a different problem. In the mid-1980s three engineers at Sarnoff Research—Stanley Knight, Danny Chin and Herbert Taylor—wanted a way to design and debug video circuitry without having to etch it in silicon. So they built a supercomputer to simulate it.

The engineers yoked together 1,024 processors; together they could swallow a line of video picture elements (pixels) in one gulp. That gulp can be digested in 62 microseconds, so that an entire frame of 525 lines takes only 30 milliseconds. Although Knight, Chin and Taylor didn't intend to design a video server, that's what they got.



Mark Lieberman of Sarnoff Real Time

It took an outsider to see the commercial possibilities.

But it took an outsider to see the commercial possibilities. Mark Lieberman, 35, a lawyer and engineer who had studied the information superhighway for the Bush Administration, met the Sarnoff people at a conference in early 1993. Lieberman saw their machine, then dressed up as a flight simulator, and asked whether it could function as a video server. Sure, said Knight. So they set out to develop Sarnoff Real Time.

That same flight-simulating video game was enough to convince John Rollwagen of the technology's promise to deliver movies on demand to cable TV subscribers. The former chief executive of Cray Research, Rollwagen thought he'd left supercomputing forever when he joined the Commerce Department in early 1993. But seven months later, after leaving the

government, Rollwagen twiddled a joystick, soared over Yosemite National Park and changed his mind.

"At Cray we'd done a similar kind of terrain rendering, flying over Mars on a multiprocessor computer, but it took hours to create a similar scene," says Rollwagen. "This [Sarnoff's application] was done in real time."

By October 1993 Rollwagen was back in supercomputers, as chairman of Sarnoff Real Time. Lieberman was named president in March 1994.

Lieberman claims that one of Magic's main competitors, an Ncube supercomputer with a 1,024-processor array, could cost more than \$250 per cable subscriber, compared with Sarnoff Real Time's estimated price of under \$100. Craig Ramsey, Ncube senior vice president for marketing disagrees. "They're comparing us with our last generation as compared to what they're going to be competing with in the marketplace," he says, adding that Magic is still being tested.

Sour grapes, say the Sarnoff folks. "We're hoping that by the end of 1995 this company is breaking even," says James Carnes, chief executive of Sarnoff Research Center, which invested \$5 million in Sarnoff Real Time last year and is raising private funding this year. "We have almost \$10 million orders for product, and we're starting to roll." Real Time has signed a letter of intent with Nortel Communications, a maker and manager of multimedia kiosk networks in Santa Monica, Calif. The two firms

A Cray took several hours to create a virtual terrain.

A Magic supercomputer did it in real time.

plan a pilot program for the Social Security Administration to give citizens the kinds of services cash machines give bank customers.

If video on demand takes off, Magic may turn out to be the right product at the right time. If so, Sarnoff Real Time will owe its success not to planning but to alertness: Someone noticed the gold sitting on a research department's shelf.

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Two ways to mint money

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is a portfolio manager. His forthcoming book on investing in technology stocks and funds is *The Market that Beats the Market* (Little Brown, 1995).

WHAT KIND OF technology company nets 25 cents on the sales dollar? That unstoppable behemoth Microsoft comes to mind. But there are a handful of much smaller companies that match Microsoft's net margin or come close. They are extremely profitable because their technology is so new, or so newly valuable, that heavy competition does not yet exist for customers' dollars.

High-margin firms don't always make good investments—competition has an ugly way of eroding returns—but they are always worth looking at. If nothing else, they point you to new technologies that could turn into boom sectors in the next decade. Let's look at two of them: Videonics Inc. and Fulcrum Technologies Inc.

Videonics manufactures hardware (including custom chips and software) that helps amateurs edit their home videos. This Campbell, Calif. company netted \$6 million on revenues of \$31 million last year. For the quarter ended Dec. 31 its aftertax margin was 27%.

Amateur video is big. Camcorders are now commonplace at weddings. How-to and promotional videos are proliferating, as do-it-yourself movie producers are selling their expertise in fields as diverse as sewing, surgery, boatbuilding and firefighting.

What makes an amateur video seem amateurish? In most cases it is either the complete lack of editing or a clumsy form of it produced by starting and stopping the camcorder. Videonics makes digital editing equipment used to cut, edit, mix, color and caption videos. Videonics sells a rudimentary version of the type of equipment sold by Avid Technologies (FORBES, June 6, 1994). Avid sells systems in the \$50,000 to \$100,000 range to broadcast news producers. Videonics sells systems for \$1,200 or less to hobbyists and beginners.

The market is potentially huge. When Videonics offered its popular \$29 seminars on video editing last year, it sold 3,500 tickets.

Videonics sells its equipment through camera shops, industrial

Ninety percent of all business info is stored as loose text. Searching it is not easy.

dealers, mail order dealers and retailers like Radio Shack. It also makes products for Sony, which sells the equipment under the Sony brand name in Japan. Videonics was founded in 1986 and went public last Dec. 15 at 11.

The 27% net profit margin is not going to last. For all but two weeks of the December quarter the firm was an "S" corporation, with a very favorable California income tax rate of 1.5%; now it's a "C" corporation and will be more heavily taxed. Rapid revenue growth, which seems likely, also puts a drag on profits.

At a recent 17, Videonics trades at 21 times the trailing earnings of 79 cents it would be showing if it had been taxed as a "C" corporation all last year. That's not expensive for a technology stock. But I would take another look at this stock in 1996. It is

still a very new issue. Keep an eye on the amateur video industry, a growth field that may give rise to other fast-paced startups.

Fulcrum Technologies is, for me, more attractive investment. This Ottawa-based firm sells text retrieval software. It took in revenues of \$27 million (Canadian) last year, netting \$3.9 million, for a 24% net profit margin.

Most computerized data are stored in neat compartments called fields. One field provides a space for the customer's name, another for the zip code, another for the date of the last order and so on. Dicing the information into distinct, labeled fields make it easy to index, sort, file and retrieve. Thus, you can call up a list of all the customers in a given zip code or with invoices more than 30 days overdue.

But according to the Gartner Group, 90% of all business information is still stored as loose text: letters, memos, proposals, contracts. The desk drawer would probably have remained the technology of choice for text storage and retrieval if not for scanners and for the cheap, capacious compact disk. Soon, we will have a lot of this loose text in machine-readable

form, but searching and retrieving it is not easy. That's where Fulcrum comes in.

Fulcrum has been hammering away at text retrieval since the early 1980s. This company already has written the code everyone suddenly needs. It licenses its code in the form of programming tool kits and "text engines" to programmers in other companies. Its royalty revenue stream gives rise to a fat profit margin that probably is sustainable.

Fulcrum has a significant competitor in Verity, Inc. Fulcrum's stock, which is traded on the Nasdaq, rose sharply on the January news that Fulcrum had been selected by Microsoft for text retrieval software. It will access the coming Microsoft on-line network. At a recent 19 (U.S.), Fulcrum trades at 45 times trailing earnings. It's a buy at 15 or lower.

One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. 1-800-543-4636



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Doctors are prescribing billions of dollars in new hypertension drugs. The government says older, cheaper drugs should do. Who's right?

Enough to make your blood boil

By Kate Bohner Lewis

IF YOU ARE one of the 50 million Americans suffering from high blood pressure, you are probably taking medication for it. Untreated, hypertension greatly increases your risk of death from stroke, heart attack or kidney disease. But which pills are best? On that score you will find very divergent opinions.

In one camp we have the doctors sitting on a National Institutes of Health hypertension advisory panel. In its most recent report, the panel favored two types of drugs: diuretics (which rid the body of excess sodium and water) and beta-blockers (which slow the heartbeat).

"We did not feel as comfortable recommending the new classes of drugs because we felt there was not enough long-term clinical evidence," says Dr. Marvin Moser, clinical professor at Yale University School of Medicine and a member of the NIH panel. This, despite the fact that previ-

ously that same NIH panel endorsed all of the hypertension drugs equally.

In the other camp are the many doctors who are convinced that newer antihypertensives have a lot of merit. These drugs fall, for the most part, into two other categories: calcium channel blockers (which reduce contraction of the muscles that squeeze blood vessels tight) and angiotensin-converting-enzyme inhibitors (which interfere with the action of a kidney hormone, renin, that causes those muscles to squeeze).

Dr. Michael Weber, a blood pressure specialist in Los Angeles and an adviser to the Food & Drug Administration, thinks the NIH is wrong to turn people away from calcium channel blockers and ACE inhibitors. "It's oddly coincidental that in an environment moving toward managed care and cutting costs, the panel would suddenly only recommend the two least expensive drugs," he says. "The

implications are dangerous. Should the government tell doctors which drugs to prescribe? Why then have doctors at all?"

Fortunately, the government hasn't gone quite that far. What you take is between you and your doctor. Ideally, you have an internist or cardiologist who has clinical experience using all four main types of antihypertensives and knows the pluses and minuses of each.

You may be one of the 50% of hypertension patients whose kidney produce too much renin. A beta blocker or an ACE inhibitor would be especially valuable in these cases, say Dr. John Laragh, director of New York Hospital's Hypertension & Cardiovascular Center.

In general, the best drug could be from any of the four categories. You doctor will select a drug, or combination of drugs, after considering your family history, your general health, other cardiovascular problems you have and the drug's side effects. For example, if you are suffering from heart failure (inadequate pumping volume) as well as hypertension, then again, an ACE inhibitor makes sense.

Side effects, meanwhile, are a matter of trial and error. A drug that saps the energy of one patient severely may leave another patient feeling fine. The goal is to get your blood pressure down to a safe range with the least severe side effects.

Last, if you are paying for the drug out of your pocket, cost may be consideration—but only to choose between two medically equivalent alternatives. Warns Laragh, a critic of the NIH report: "You cannot put price on the wrong drug."

Choose one, or maybe two

Treatment	Producer	Cost per year ¹	Potential side effects
ACE inhibitors			
Vasotec	Merck	\$776	5% to 10% experience
Capoten	Bristol-Myers Squibb	1,183	chronic cough
Beta-blockers			
Lopressor	Ciba-Geigy	635	5% to 10% of men
Inderal (slow release)	American Home Products	728 ²	suffer impotence
Calcium channel blockers			
Cardizem CD	Marion Merrell Dow	1,181	5% suffer headaches or
Procardia XL	Pfizer	946	swelling in legs
Diuretics			
Hygroton	Ciba-Geigy	343 ³	5% to 15% of patients suffer
Esidrix	Ciba-Geigy	84 ⁴	fatigue or sexual dysfunction

¹Typical retail price at high dose. ²Retail, typical generic: \$93. ³Retail, typical generic: \$84. ⁴Retail, typical generic: \$20.

There are dozens of hypertension drugs. Here's a sampling from the key groups.

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Chicagoans claim their city now has the best restaurants in the country. Hometown chauvinism aside, they can make a pretty fair case.

"A very solid town"

By Gary Samuels

LISTEN TO these boasts. "The Chicago restaurant scene is the best in the world, and I travel the world," brags Patrick Arbor, chairman of the Chicago Board of Trade. "You don't find any better dining places anywhere else," insists Ardis Krainik, general director of Lyric Opera of Chicago, and a world traveler.

"Second City boosterism," sneers *Chicago* magazine food critic Anne Spiselman.

We'll stay out of the argument, but

we will affirm that Chicago has plenty of first-class restaurants. When rating New York steakhouses last year, Gael Greene, *New York* magazine's food critic, wrote, "Oh, the desperate ignominy of it. Morton's of Chicago takes the prize. . . . Just typing the words breaks my chauvinistic New York heart."

There are now four Morton's to choose from in Chicago. But beyond steak, there's bold new cuisine, too. In the *New York Times Magazine*



early this year, food writer Molly O'Neill praised Chicago-born chef Charlie Trotter. "The complexity of his recipes pushes the outer limits of culinary sanity," she wrote. "His 'lasagna' of braised turnips and rabbit is



Photographs by Churchill & Klein

The prized table in the kitchen at Charlie Trotter's restaurant Trotter, standing, wows critics by "pushing the outer limits of culinary sanity."



Shaw's Crab House
Thank you, Rich Melman.

pression time, where you know there will be no screw-ups."

When Ariel Mutual Funds President John Rogers Jr. dines with his family, he likes Melman's moderately priced Tucci Benuech and Mity Nice Grill, a comfortable place with an eclectic menu that recently opened in the Water Tower Place vertical mall. With clients, Rogers goes off the Melman menu, preferring Eli's, a venerable steak-and-cheesecake house, or Italian showcase Spiaggia ("spectacular view of Oak Street beach").

Another spot for great Italian food in the Loop is Trattoria No. 10, a Tuscan restaurant in a converted basement boiler room. "Best ravioli in town," says the *Sun-Times*' Bruno.

If you like your Italian home-style and served up by no-nonsense waiters, try Rosebud on Taylor Street, Chicago's Little Italy, or its North Side sister, on Rush Street. At the nearby Vernon Park Tap, another Italian classic, service is "by design a little not so friendly," says Pat Arbor, chairman of the Chicago Board of Trade. Still, it attracts the likes of pro sports stars and Mayor Richard Daley.

For Mexican, the elegant but tightly packed Topolobampo and its no-reservations sister Frontera Grill may well be among the best around.

It seems there's a Thai restaurant on every block, but Arun's on the northwest side wins Charlie Trotter's nod as best in the country.

Chicago also has some of the best Greek restaurants outside Greece. Bruno suggests Santorini in Greek Town for grilled octopus; Jack Sandner, chairman of the Chicago Mercantile Exchange, likes Melman's Papagus.

Out in the neighborhoods, the newest restaurant frontier is the old produce market, five minutes by cab west of the Loop. There, along West Randolph Street, are Marché, a noisy new French see-and-be-seen bistro; and two more subdued Italian spots, Paladino's and Vivo.

If you're doing business in the suburbs, Trio is a hot new Italian restaurant in Evanston, and the once nationally renowned Le Français in Wheeling reportedly is excellent again under new management.

Outsiders have discovered Chicago and are staking their claims. Wolfgang Puck is rumored to be coming to town with a Spago. Alan Stillman of New York's Smith & Wollensky recently opened Mrs. Park's Tavern and Park Avenue Cafe.

"Chicago's a small New York," says Rich Melman. "Not as vital, not as hectic, not as dirty, but solid. It's a very solid town."

Zagat's top 30 Chicago restaurants

Restaurant	Telephone	Zagat comments
1. Ambria*	312-472-5959	"Approaches perfection"
2. Charlie Trotter's	312-248-6228	"What a way to die"
3. Everest*	312-663-8920	Spectacular views, peak dining
4. Le Français	708-541-7470	"Even better" under new owners
5. Carlos'	708-432-0770	Classic French in the suburbs
6. Scooz!*	312-943-5900	Noise and "unbelievable waits"
7. Frontera Grill	312-661-1434	"Lively, fresh, original hot spot"
8. Gordon	312-467-9780	"Chef-of-the-week club"
9. Un Grand Cafe*	312-348-8886	"Paris meets Chicago"
10. Jimmy's Place	312-539-2999	Opera and "Asian influence"
11. Avanzare*	312-337-8056	"Milan with elan, in place for ad folk"
12. Cafe Ba-Ba-Reeba!*	312-935-5000	"Gorge yourself" on tapas
13. Berghoff	312-427-3170	Since 1898; beware tourists
14. Bob Chinn's	708-520-3633	Seafood factory, try off hours
15. Yoshi's Cafe	312-248-6160	"Lovely, intimate" Asian-French
16. Jackie's	312-880-0003	Food "almost too pretty to eat"
17. Carlucci	312-281-1220	"Trendy, festive" Northern Italian
18. Bistro 110	312-266-3110	"Trendy, if noisy, yuppie crowd"
19. Emilio's Tapas Bar	708-547-7177	"Mediterranean Melman of suburbs"
20. Trattoria No. 10	312-984-1718	Popular Loop Italian, ex-boiler room
21. Topolobampo	312-661-1434	"Elegant" Mex; "unique flavors"
22. Lawry's Prime Rib	312-787-5000	"Does one thing and well"
23. Shaw's Crab House*	312-527-2722	"Comes close" to NYC Oyster Bar
24. The Rosebud	312-942-1117	"Don't expect a conversation"
25. Morton's of Chicago	312-266-4820	"Chicago's best steakhouse"
26. Printer's Row	312-461-0780	"American...innovative...romantic"
27. Como Inn	312-421-5222	"McComa—over one billion served"
28. Prairie	312-663-1143	Buffalo, rabbit, Sheboygan sausages
29. Cape Cod Room	312-787-2200	For the "blue-hair brigade"
30. The Pump Room*	312-266-0360	"Not as good as you remember"

*Lettuce Entertain You-owned restaurants.

Source: Zagat Chicago Restaurant Survey, 1994 update.

tilt like a shingled pagoda, floating on a sauce of pea peas."

"Charlie Trotter's is superb vis à vis San Francisco, New York or Paris," raves velvet-wise Stephen Wolf, former chairman of United Airlines. A University of Wisconsin political science major and Ayn Rand devotee, owner and chef Trotter, now only 35, opened an eponymous restaurant in a town house in the gentrified Lincoln Park district in 1987, and it has been making noise every since.

Then there's Rich Melman, whose Lettuce Entertain You Enterprises owns restaurants in the Chicago market, from the top-end French restaurants Ambria and Everest to the fried Pump Room to the stererous Shaw's Crab House.

Melman's wood-paneled Ambria in Lincoln Park and Everest, 40 floors above the Chicago Stock Exchange in the Loop, are guaranteed safe," says Pat Arbor, restaurant critic for the *Chicago Sun-Times*. "No places for super-im-



A T-bone steak in

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I M P A L A S S  G E N U I N E C H E V R O L E T TM

Once the rage among the American new-rich, portraits of defunct British aristocrats have fallen into disfavor. If you enjoy them, now may be the time to buy.

Buying into the aristocracy

By Doris Athineos

IN THE EARLY PART of this century, Henry Clay Frick, Andrew Mellon, Henry Huntington and other newly minted American millionaires paid handsomely for portraits of stuffy British squires.

"Americans were after instant title and status," says Susan Casteras, curator of paintings at the Yale Center for British Art. Two favorite ways, says Casteras, were: "By having their daughters marry into aristocracy or acquiring British portraits."

With the U.S. churning out millionaires by the hundreds, the prices

for the coveted British portraits jumped. In 1901 John Hoppner's "Lady Louisa Manners" fetched £14,732. To put this sum in perspective, it was enough to employ 200 workers for a year, maybe \$2 million in today's money. That record soon fell. A dozen years later, Philadelphia banker Edward T. Stotesbury paid £72,300 (\$352,245) for Hoppner's "Tambourine Girl," now known as "Emily St. Clare as a Bacchante." In 1921 Henry Huntington paid £148,000 (\$721,000) to buy Gainsborough's "Blue Boy."

The buyer of the Hoppner "Lady Louisa" and many other British portraits was the cunning British art dealer Joseph Duveen. Working with his silent partner, art critic Bernard Berenson, Duveen fleeced many a new-rich Yankee. His clients included Fricks, Huntingtons and Mellons (For an account of their machinations, see Colin Simpson's masterly *Artful Partners* (Macmillan Publishing Co., 1986; \$22.50).

To Americans, John Hoppner was as fascinating for his reputation as for his talent. He was rumored to be the illegitimate son of George III, the mad king, who ruled during the American Revolution.

Another sought-after portraitist was Scottish Sir Henry Raeburn (1756-1823). Like owning a Renoir or Picasso today, a Raeburn or Hoppner on the living room wall too the shine off new money at the turn of the century.

Duveen also did a brisk trade in portraits by Sir Thomas Lawrence (1769-1830), George Romney (1734-1802), Sir Joshua Reynolds (1723-92) and Thomas Gainsborough (1727-88).

Like most things in life, the a



Portrait of Emma, Lady Hamilton (left) by George Romney fetched \$107,900 at auction in 1988

Young collector Peter Schweller (above) finds Romney drawings and sketches for as little as \$1,000 each.

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NEW YORK STAMFORD PRINCETON PALM BEACH BOCA RATON NAPLES DALLAS COSTA MESA LOS ANGELES PORTLAND GRAND CAYMAN



Sir Joshua Reynolds' *Portrait of a Lady* (above), whose identity is lost to history, sold at auction for only \$13,000 last year

Reynolds' *Portrait of George Townshend, Lord de Ferrars*, in splendid *Light Dragoons* uniform (right), recently fetched \$772,500, as part of Rudolf Nureyev's estate. Nureyev bought it for \$850,000 in 1988 from New York dealer Richard Feigen.



market is cyclical. The Depression and World War II destroyed the market for paintings of Georgian aristocrats. The big money never did flow back into 18th- and 19th-century English portraits, which is why many art experts say they represent some of the best values in paintings today.

Not all the old English portraiture is bargain-priced: When the subject is famous, the bidders respond. In Christie's November 1994 sale, Reynolds' portrait of chinless writer Oliver Goldsmith fetched \$143,200. And a Gainsborough self-portrait (in which he wears a green coat) fetched \$397,000.

But more routine paintings, of excellent quality but of less famous subjects, can be had relatively cheap. An attractive "Countess of Hyndford" by Reynolds, which had sold at Butterfield's in San Francisco for \$40,000 in June 1990, brought only \$10,800 four years later in London.

"English portraiture has underlying cultural value," counsels London art dealer Rupert Burgess, former head of British pictures at Christie's in London. "It's about the quality of the painting and character of the sitter. When you buy a portrait, you live with the story of the subject's life."

Some American collectors have quietly socked away impressive collections of English portraiture. Fred Hughes, friend and business partner of the late celebrity portraitist Andy Warhol, has collected more than two dozen 16th-century portraits over the past 20 years.

If you're after a name portraitist but have less than \$5,000 to spend, collector Peter Schweller of Dayton, Ohio recommends that you consider drawings and pen gouaches. The 28-year-old student just returned from a yearlong London sojourn, where he studied the British masters hanging in the National Portrait Gallery. Recent-

ly Schweller bought a Romney sketch of a young woman and a Romney drawing of an elderly woman reading the palm of Emma, Lady Hamilton. Cost: about \$1,000 each.

Interested? Ellis Waterhouse, expert on English portraiture, provides short biographies of even the most obscure painters in *Dictionary of British Art, Vol. II: British 18th Century Painters* (Antique Collectors Club, \$89.50). For a historical overview read *Painting in Britain 1550-1790* (Yale University Press).

To see the Huntington, Mellon and Frick collections, visit the Huntington Library (San Marino, Calif.) and the Frick Collection (New York City). The London branch of Sotheby's offers up heaps of portraits three times a year, in April, July and November; Christie's has sales in June and November.

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Robert Annunziata is a reminder that there's still enormous opportunity for people willing to work grueling hours and occasionally tell their bosses where to get off.

Whatever it takes

By Brigid McMenamin

TWO YEARS AGO when a terrorist bomb rocked New York's World Trade Center, icy water began spilling into the basement where Teleport Communications Group's most delicate electronic gear was housed. The \$125 million (1994 revenues) private phone company's service for big clients like Merrill Lynch, Dow Jones and the New York Stock Exchange was imperiled.

Teleport's Chief Executive Robert Annunziata, 46, rushed from his Staten Island headquarters to the disaster scene, where he donned jeans and rubber boots. For the next nine hours Annunziata toiled in the complex's wet, smoky bowels to help save his equipment—at one point convincing engineers to let him punch a hole in a wall to pump the water into a train tunnel.

Like roughly 20% of the chief executives who run *FORBES'* 200 Best Small Companies (Nov. 7, 1994), Annunziata's formal education stopped with high school. But that hasn't held him back from climbing to the top of a fast-growing telecommunications company. More important than a sheepskin are his energy, ambition and a willingness to tell his superiors when they're thinking too small. "He'll do whatever it takes [to get the job done]," says Teleport Vice President Rod Resky.

Growing up in a working-class Long Island neighborhood, Annunziata planned to become an electrician. But when he graduated from high school in 1966, he had a wife with a baby on the way. "I was in dire need of a job," says Annunziata. So he took one as a technician in an AT&T equipment room in New York City.

Finding that he could easily master the technical work, Annunziata also showed a knack for managing people and kept asking for responsibilities. "I had this thing of needing to be in charge," Annunziata says. By the time he was 25, he had more than 100 AT&T technicians reporting to him.

Impressed, his bosses moved him



Teleport Chief Executive Robert Annunziata
"I believe in myself."

into sales, where one of his customers was Merrill Lynch. By the early 1980s the Wall Street firm needed high-speed, high-capacity fiber-optic lines to move mountains of data, but the local phone company (now part of Nynex) was slow to offer the equipment and services.

In 1983, Merrill decided to install its own fiber-optics link from its New York headquarters to a satellite dish that would give the firm access to its offices and customers worldwide. Merrill asked Annunziata to run the new operation for them. Knowing he'd go no further at AT&T without a

college degree, Annunziata said yes.

Within three weeks he made a brazen suggestion: Merrill should bypass New York Telephone and offer private line services to other big New York-based companies, too—an idea that would build a whole new business. Fancy degrees don't count for much in Wall Street trading rooms. So Merrill didn't hesitate to back Annunziata with \$17 million. Teleport soon signed up Bankers Trust and Citicorp bank. CNN and the United Nations followed.

Teleport upset Nynex and other local phone companies, threatening Merrill Lynch's investment banking business. That and the high costs of expansion led Merrill in 1989 to sell it to cable TV firms interested in someday providing phone service.

The cable boys liked the energetic young Annunziata. By late 1992, Merrill had split Teleport up among four of the U.S.'s biggest cable companies: Comcast Enterprises (with a 30% interest), Tele-Communications Inc. (30%), Comcast (20%) and Continental Cablevision (20%).

Today, Teleport has the biggest competitive local phone network in the U.S., with 4,000 route miles of fiber-optic cable and 1,200 employees serving 25 cities and more than 200 other communities. And it will grow much larger.

Last fall three of Annunziata's cable owners (all but Continental) announced a joint venture with Sprint. Called New Telco, the venture will offer cable and telephone service both local and long distance

wireless as well as wired—under the Sprint name. With Teleport expected to handle the wired side of the new venture, Merrill Lynch analysts project the company's revenues to \$872 million by the year 2000, a \$1.5 billion by 2004—by which time Annunziata will be only 55.

Would the young AT&T technician with no higher education have been surprised to learn that he'd someday run one of the country's fastest-growing telephone companies? Not at all, says Annunziata: "I just had the sense that I'd be giving out ideas and coming up with something big."

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The Reverend Charles Barnes indirectly created two fortunes based on books—the famous Barnes & Noble chain and the almost unknown Follett Corp.

A family affair

By Marcia Berss

BACK IN 1873 Reverend Charles Barnes opened a bookshop in his Wheaton, Ill. home. From that decision grew two bookselling fortunes. One is Barnes & Noble, started by the minister's son, William, who moved to New York in 1917 and bought a stake in Noble & Noble, an educational bookstore. Today the \$1.5 billion (1994 sales) retail chain is controlled by Forbes Four Hundred member Leonard Riggio.

The other is Follett Corp. It was started by Charles Follett, a clerk in Reverend Barnes' store who bought out William Barnes' stake when the younger Barnes moved to New York.

Now a big textbook distributor and the leading operator of college bookstores, Follett Corp. is still privately owned and run by fourth-generation descendants of Charles Follett. Last year Follett grossed \$646 million and netted \$10.3 million, a 20% return on equity. The Follett clan is probably worth some \$300 million, and the firm ranks 265th on the Forbes survey of largest U.S. private companies.

Eleven Follett heirs work in the 7,000-employee firm, and they bask in the generous dividends (currently about 40% of earnings) received by all 112 family shareholders. But there are no special perks for family members—no company cars paid for from Follett Corp. funds.

The company made an ill-fated diversification into running tennis clubs and campgrounds in the 1970s. In the 1970s and 1980s, five family members were dismissed for poor performance. "It does wonders for the other em-

ployees," says Follett President Richard Litzsinger (who married a Follett). "They say, 'Hey, this company treats everyone the same.'"

Family unity got its biggest test in the late 1970s, when Follett's textbook publishing unit was in trouble. School districts cut back purchasing. Follett's bigger competitors like Prentice Hall had enough capital and were able to wait out the cycle. It was time to get bigger in textbooks, or get out.

Follett had been a publisher since the 1920s; it entered children's publishing during World War II, and developed the first beginning-to-read books. Later it purchased the textbook division of Charles Scribner's Sons. But it was time to exit. "It wasn't an easy decision," recalls Chairman Richard Traut (he married

a Follett, too). "But you've got to recognize that without a profit, you don't have a business." Follett left children's publishing, and in 1977 Follett sold its textbook publishing unit to Prentice Hall.

Litzsinger used the money to fund expansion of contract management college bookstores, a small business Follett had begun in 1925 and supplement to its longtime practice buying used textbooks from students at end of semester. For a flat fee typically 10% of gross revenues, Follett takes over running a campus store—from staffing to purchasing.

This business is growing fast. In 1982 only 7% of the 3,500 college stores brought in outside operators. Last year some 30% did. In about the same period, Follett's sales grew at an annual compound rate of 18%.

Follett now runs 414 bookstore units. Litzsinger thinks he can double the number over the next decade. Most stores are small, but not all. The University of Kentucky and Michigan State University bookstores are Follett-run. Ironically, Follett's biggest competitor in this business is Barnes & Noble owner Leonard Riggio, who runs 286 college stores via a separately held firm.

Follett's latest venture is custom academic publishing, where it works with professors to compile collections of articles on a subject, obtains copyright permissions, then sells the package to the professors' students. (FORBES, too, has entered this business.) The custom publishing unit generates tiny revenues and lost money last year, but Litzsinger thinks he'll have solid profits in three years.

He also eyes privatizing some of the nation's 119,000 libraries. Follett is a big bookseller to libraries, and can provide staffing, cataloging, checkout software and, of course, books.

Every so often a banker calls Litzsinger and pitches the virtues of taking Follett Corp. public. Litzsinger listens politely then shows the banker the door. "If we sold," he says, "the next generation would be sick."



Richard Litzsinger of Follett Corp., the leading operator of college bookstores
All in the family for four generations.



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M-m! M-m! Better!

CAMPBELL SOUP Co. was fretting that its premier brands were losing market share to rival Progresso. But the soup giant was reluctant to tinker with a product the food industry considered a sacred cow.

Then Martin Thrasher, 43, became president of the company's U.S. soup unit a year and a half ago. A veteran of General Foods and McCormick, Thrasher joined Campbell's in 1988 and spent four years

in Canada and Australia before coming to the world headquarters in Camden, N.J.

Going right to work, Thrasher added color photos of soup to the can labels and boldly changed the trademark "M-m! M-m! Good!" slogan to "Never underestimate the power of Campbell's." Thrasher also introduced four new ready-to-serve soups. Result: Campbell's has regained over two points of share it had lost. "None of this is without risk," says Thrasher. "That's the rush for me."

Martin Thrasher
Souping up soup.



Matchmaker

HUGHES AIRCRAFT did it with Computer Sciences for \$1.5 billion. Xerox did it with EDS for \$3.2 billion. As large corporations cut costs and focus on core businesses, they increasingly farm out data processing, software de-

velopment and telecommunications work.

One major marriage broker: John Halvey, 34, the youngest partner at white-shoe New York law firm Milbank, Tweed, Hadley & McCloy. He's done 60 "outsourcing deals" since 1986, when he started at Milbank out of

On the spot



Angela Dunlap
On the front line.

TALK ABOUT PRESSURE. Named president of MCI's consumer markets division in late 1993, Angela Dunlap spent her first year watching MCI lose about 750,000 customers—roughly 1% of the market—to rival AT&T.

Dunlap, 38, a former product manager at Hallmark, started at MCI in 1982 in corporate development, moving up to marketing vice president for the business division and then consumer markets.

Now under the gun to

win back those customers—individuals provide half of the Arlington, Va. firm's \$13 billion in revenue—Dunlap added four calling plans claiming 5% to 50% savings against AT&T. Gone are the strident TV spots with cheer-

ful salespeople flogging MCI. Two months ago she launched a new package: long distance, E-mail, paging, calling cards and personal 800 numbers. What's next? Says Dunlap, "I wouldn't want to tell AT&T what we're doing."

Emory University's J.D./M.B.A. program. Last year he represented Hughes and Xerox, two of the largest deals ever. Halvey counsels on issues like severance and compliance with foreign laws.

Last year Halvey's outsourcing work brought \$3 million in fees to Milbank, up from \$2 million in 1992. A dozen more deals are in the works. "We're seeing the beginning of the virtual corporation," says Halvey. "What I do is a logical extension of that."



John Halvey
Mr. Outsource.

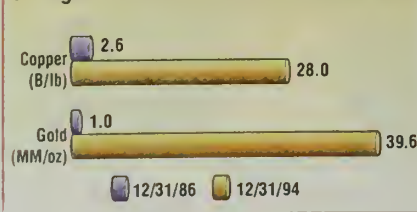
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Changes In Reserve Position 1986 to 1994



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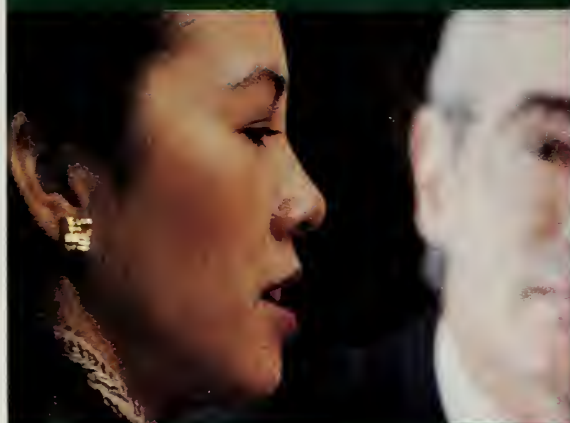
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The stock market got off to a great start in 1995, but will the rally continue? Keep in mind that even though last year was a disaster for bonds, the stock market hasn't suffered a serious decline in 52 months. That's a pretty old bull market by historical standards. Some would even argue that the bull market is 12½ years old, starting back in August 1982.

First Albany's Hugh Johnson is preparing for the inevitable bear market, which he thinks could be just a few months away. One of his worries is that the Federal Reserve—seeing the dollar getting clobbered in world currency markets—will have to keep on raising interest rates. Johnson likes only two sectors—technology and consumer noncyclicals, including health care. One favorite is North American Biologicals, which supplies blood products throughout North America, and whose profits are growing at a 20% annual rate.

Special focus

Casino stocks lost half their value in 1994. The outlook? Smith Barney analyst Jason Ader favors established Las Vegas outfits but not small operators of casinos on riverboats or Indian reservations. Even the big operators sell at reduced prices—the group below is priced at 15 times estimated 1995 profits.

Tumbling dice

Company	% change from 52-wk high	'95 est P/E
Ameristar Casinos	-63%	12.5
Aztar	-8	12.3
Circus Circus Enterp	-34	13.5
MGM Grand	-21	16.2
Mirage Resorts	-10	16.3
Primadonna Resorts	-33	15.5
Promus	-31	20.3
Showboat	-38	15.3

Source: IBES, Inc.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	-0.1%	0.8%	-3.3%
S&P/Barra Growth index	0.5	10.9	-0.1
S&P/Barra Value index	-0.2	4.5	-1.0
Dow Jones industrials	-0.2	4.1	-0.8
S&P 500	0.0	4.8	-0.6
NYSE	0.0	2.6	-1.6
Nasdaq	0.0	1.2	-1.3
Amex	1.2	-2.7	-7.1
EAFE ³	0.2	-2.7	-8.9
CRB futures index ^{4,5}	-0.7	2.9	-6.5
Gold ⁶ (Comex spot)	0.0	-0.2	-11.4
Yen ⁷ (per \$US)	-2.3	-8.4	0.0
Oil ⁸ (W Texas Intermediate)	-1.3	24.4	-55.4

The best and worst performing stocks

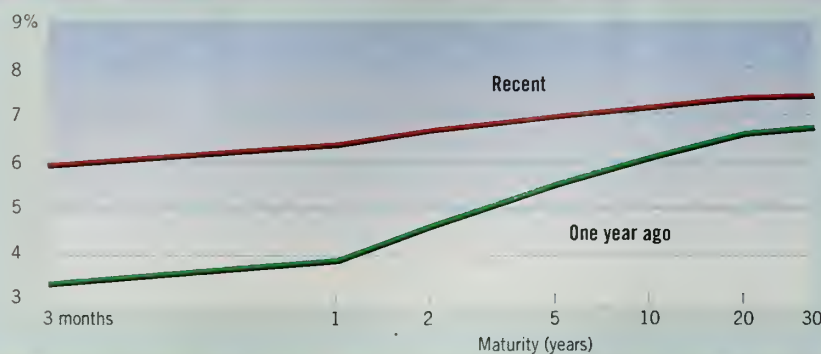
Best	Price	2-week change	1995 EPS ¹	Worst	Price	2-week change	1995 EPS ¹
ValJet Airlines	32 3/8	36%	\$ 1.98	American Sensors	8 1/2	-41%	NA
America Online	90 1/2	33	0.80	GTI	10 1/4	-41	\$ 1.10
Brothers Gourmet Coffees	14 1/8	29	0.75	ICN Pharmaceuticals	14 3/4	-35	2.13
Fritz Cos	64 1/2	29	2.10	Reddi Brake Supply	4 1/8	-33	0.17
Multimedia	38 1/8	28	2.01	Radius	9	-31	0.98

The best and worst performing industry factors⁷

Best	2-week change	Since 12/31/94	Worst	2-week change	Since 12/31/94
Oilfield services	6.6%	12.3%	Aluminum	-6.8%	-3.4%
Air transport	4.0	12.0	Forest products	-6.6	0.2
Water transport	3.5	4.2	Motor vehicles	5.9	13.9
Pharmaceuticals	2.8	10.3	Misc mining metals	-4.2	-4.8
Thriffs	2.4	12.6	Tobacco	-3.6	0.7

¹ Data for period ending 3/2/95. The Barra All-US price index consists of all publicly traded common U.S. stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. exchanges. ADRs, REITs and closed-end funds are excluded. ² Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings. ³ Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ⁴ A dollar-denominated capitalization-weighted index of more than 1,100 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁵ Index of 21 commodity futures. ⁶ Source: Knight-Ridder Financial Publishing. ⁷ Data for period ending 3/2/95. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

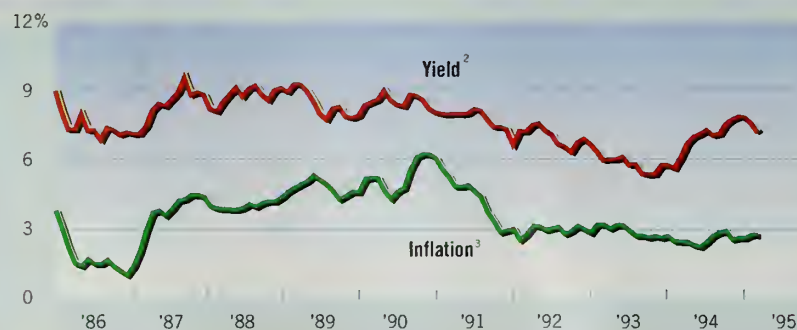
Treasury yield curve



30-year rate minus 1-year rate



Yield versus inflation



Forbes

Spread over Treasuries

Security	Basis points ^{1,7}
AA corporates	43
AAA industrials	34
Ginnie Maes	56
Junk corporates	426
Municipals ⁵	-116

Total returns

Security	1 year ⁷	3 years ⁸
AAA corporates	1.3%	7.4%
Ginnie Maes	3.2	6.5
Junk corporates ⁴	0.6	10.1
Municipals ⁵	1.9	7.0
Treasury bonds	1.4	6.5

Note: Most information provided by Barra, Inc., Berkeley, Calif. ¹A basis point is equal to one-hundredth of a percentage point. ²Yield on 10-year Treasuries. ³The trailing 12-month increase in the overall Consumer Price Index. ⁴Source: CS First Boston. ⁵Source: Lehman Brothers. ⁶Composite maturities. ⁷Data through 2/28/95. ⁸Annualized.

Unlike a year ago, fixed-income investors don't have to go too far out on the maturity spectrum to get inflation-beating returns. The after-inflation yield on a two-year Treasury, for instance, is 4.1%—about two percentage points above the yield at the time last year. The average money market fund, whose real yield was close to negative a year ago, recently paid 2.8% net of inflation.

By far, the best-performing sector of the fixed-income market the past few years has been junk bond defined as debt rated no higher than Ba1 by Moody's. Even in 1994—which was a disaster for money bonds—the total return for junk bonds was about even.

Keep in mind that junk bonds are as susceptible to changes in credit quality as they are to interest rate swings. CS First Boston's Robert Kircheff, whose specialty is high-yield bonds, thinks the market has been too tough on some issues. One example is the U.S. Banknote Corp. 10.375s of 2002, rated Ba3 by Moody's. In the U.K., Kircheff likes the bonds of some small cable firms such as Marcus Cable Co., whose bonds are dollar-denominated.

On the tax-free side, a sharp reduction in new issues has all but closed down the primary market for municipal bonds. This has led to the shutdown of several big municipal bond trading operations, including the one run by Donaldson, Lufkin & Jenrette and CS First Boston. While DLJ still offers municipals to its retail customers, the firm no longer will underwrite new issues or serve institutional clients.

The municipal bonds that are available have historically narrow spreads under Treasuries. Nonetheless, they still make a lot of sense, even for investors not residing in high-tax states like California. The average yield for the highest-grade 30-year tax-free bond is 5.9%, which easily beats a taxable Treasury yielding about 160 basis points more. For risk-tolerant investors, the lower grade municipals pay a full percentage point more than ones rated Aaa.

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So call me

By Mary Beth Grover



Janus Flexible Income Fund manager Ronald Speaker
"We try to own bonds that companies want back."

IS IT EVER WORTH paying higher than rock-bottom expenses for a bond fund? In most cases the answer is no. Why shoulder big expenses for a fund that simply buys Treasuries or Ginnie Maes? Or one that is basically indexed to any sector of the fixed-income markets?

An exception to this rule is so-called flexible bond funds whose managers are able to pick and choose the most attractive issues from among the entire bond market. The best of these funds levy fees of up to 0.9% of assets—but are worth the cost, as shown by the performances of talented bond pickers like Daniel Fuss of Loomis Sayles Bond Fund (*FORBES*, May 24, 1993), William Gross of Harbor Bond (*Mar. 15, 1993*) and Robert Rodriguez of FPA New Income (*Aug. 29, 1994*).

A candidate to join this short list of smart bond pickers is 30-year-old Ronald Speaker, who has run Denver-based Janus Flexible Income Fund (assets, \$406 million) since late 1991. Over the last three years the fund returned 8% compounded annually, besting the Merrill Lynch corporate/government bond index by 1.9 percentage points per year. *FORBES* awards Janus Flexible a B for both up

and down market performance.

Speaker puts his bond picking philosophy this way: "We do this balancing act. Investment-grade bonds have more interest rate risk. And junk bonds have more credit risk. We put the two together and get higher yield with less volatility."

Speaker typically holds 35% of Janus Flexible's assets in high-grade corporate bonds (recently including issues from Chemical Banking and Ford Motor Credit) and 15% in Treasuries (lately divided between 10-year and 30-year issues).

The other half of Speaker's fund goes mostly into junk and near-junk bonds, those with credit ratings below BBB-. "That's where we do our bond picking," says Speaker. "That's how we can add value."

In seeking bargains in junk, Speaker pays especially close attention to high-coupon bonds that issuers are likely to call or tender for before maturity, in order to reduce their interest expense. "We try to own bonds that companies want back—especially when they're going to have to pay up to get them," he says.

Take Stone Container's 11s of 1999, a \$125 million (par value) issue that was marketed in 1992. Speaker

figures that retiring this expensive short-term debt may be part of Stone's campaign to halve its \$4 billion debt by 1998 (*FORBES*, Feb. 13). Speaker bought this paper last December at 98½. It is callable at 104 in late 1997, but Speaker thinks Stone will tender for the issue before that, at a nice premium above 104. Recent price, 102¼.

Speaker also reckons Cadbury Schweppes, which recently bought Dr Pepper/Seven-Up, will tender for Dr Pepper's last outstanding issue, its 11½% zero coupons of 2002. Callable at 104% of accreted value in late 1997, these zeros are the fund's largest holding, at 4% of assets. Again, Speaker expects an advance tender offer at a premium. The bonds traded at 84.

RJR Nabisco has two outstanding issues that intrigue Speaker: its 8⅝s of 2002 and its 8¾s of 2005. Neither issue is callable, but Speaker expects the company to tender or propose an exchange offer for them by the end of the year.

All told, Speaker has 13% of Janus Flexible's assets in debt likely to be called or tendered for. He calls the "cushion bonds," because of the fairly stable prices and high coupon.

Example: the Texas Eastern Transmission 10s of 2011. These notes are callable at 106 now and 105½ in October—and probably will be called, since the natural gas company was able to borrow at just 8¼% last year. "In the bear market of 1994 this issue was a gem," says Speaker. "It traded around 106 all year long. That's because the call price puts a firm floor under this bond. 'There's very little upside, and very little downside, either,'" says Speaker. Cushion bonds like this one helped hold Janus Flexible's loss in last year's disastrous bond market to 2.9%, versus the Merrill Lynch corporate/government index's 3.3% loss.

Janus Flexible Income charges 0.93% in annual expenses. That's five times as much as the very low cost of Vanguard Total Bond Market Portfolio charges. But the Vanguard fund merely tracks the market—while Janus Flexible, at least while Speaker has been at the helm, has beaten the market. With Janus Flexible you get what you pay for.

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*Returns are historical and do not guarantee future results. Performance figures include changes in share price and reinvestment of dividends and capital gains, which will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Source: Lipper Analytical Services, Inc.

**Source: Ned Davis Research, Inc. Represents the period 12/31/64 to 12/31/94. Used with permission. All rights reserved.

†Source: *Kiplinger's Personal Finance Magazine*. *Mutual Funds '95: The Smart Investor's Guide*, January 1995.

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FOR 32795

The market reacts too slowly to earnings revisions. So says John Bogle Jr., manager of the (so far) extremely successful Quantitative Numeric Fund.

Musical chairs

THE 2,700 securities analysts who earn their livings estimating the future earnings of publicly traded companies are often very wide of the mark. But never mind. Wall Street puts a lot of stock in what they have to say. In late December, for instance, the analysts covering chipmaker Micron Technology were predicting earnings of \$5.94 per share for fiscal 1995; by January the forecast had risen to \$6.32; by last month it was up to \$7.25. In the same period, the stock price has shot up 54%, to 68.

"There is a persistent linkage between increasing earnings expectations and increasing stock prices," says John Bogle Jr., 35, who runs the Quantitative Numeric Fund. But aren't the analysts' earnings estimates usually wrong? "Of course. But the market still follows them."

If investors are sheep, you can make a lot of money by being the first to figure out which way the flock is about to lurch. Thus Bogle's computer model is programmed to help him buy stocks as soon as analysts' earnings forecasts are revised upward, and sell them before the flock catches up.

"It is a form of the greater fool theory," says Bogle. "But, because humans make similar cognitive errors in times of change, you're not always proved a fool by it." In other words, people tend to pay more for a stock each time an earnings forecast is revised upward, even though the risk of disappointment is also rising. That's why Bogle turns over his portfolio three times a year, in an endless dash to stay ahead of the sheep both into and out of a stock.

It sounds like musical chairs, but Bogle's system has worked well—so far. Since the fund's inception 2½ years ago, it has averaged a 25% annual return, 11½ points ahead of the Russell 2000 Index of small stocks.

The difference between Bogle's

and other momentum funds (FORBES, Dec. 19, 1994) is that he makes no pretense of forecasting earnings increases himself. He need not worry whether he's wrong, but only whether the market is wrong. Bogle: "The game is less who's the cleverest statistician than who's the fleetest of foot, who can capture and act on the information first."

Each time a stock trades at a new price, a company reports earnings or an analyst revises an earnings estimate, Bogle's 17 Sun Microsystems workstations twitch, recalculating the attractiveness of the stock. The computers adjust the earnings estimate



Quantitative Numeric's John Bogle Jr.
"Who's the fleetest of foot?"

revisions for such factors as the number of analysts covering the company, the magnitude of earlier revisions, the stock's industry group and its market value. It even takes a few fundamentals, such as book value, into account. Bogle prefers small stocks (under \$1 billion in market value) followed by ten or fewer analysts; he has found that such stocks get the biggest bar from rising earnings estimates.

To be played well this game must be played on fast-forward. Take MicroTouch Systems, the maker of touch-screen computer displays. Bogle bought the stock in October at 28 as earnings estimates rose 26% in one month. But in November not one of the four analysts following the company raised his earnings estimate, Bogle sold at 38—a 60% profit in 30 days. By year-end the stock hit 47, but it has since flopped to 28.

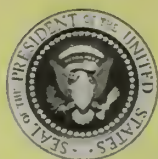
Bogle and his partner, Langdon Wheeler, do no fundamental research. They've never visited the companies in their \$93 million fund and almost never read a financial statement. In a bear market their system would have them stick to stocks whose earnings estimates were dropping the slowest. These days, the fund's average stock sells for 17 times the last 12 months' earnings, about 15% higher than the overall market.

Quantitative Numeric is closing new investors on Mar. 31. A new sister fund, Numeric II, will chase midsize stocks with a median market value of \$2 billion or so. Bogle is candid in admitting that his system may not work quite as well in large stocks.

If Bogle's name sounds familiar, it's because his father is John Bogle, chairman of the Vanguard Group. They're in opposite camps on the matter of how to run a fund. Vanguard makes a fetish of keeping costs down, as low as 0.2% of assets per year for a stock fund. But Bogle Jr.'s fund runs up expenses nine times that high.

Does Numeric's performance vindicate its costly management style? It's too soon to say, but if the young Bogle can keep up his market-beat returns for a decade, then fans of efficient money management, including Bogle père and FORBES, will have to concede that he's worth a salt. Stay tuned.

—J.Z.



HE WAS WELL-READ ON MANY SUBJECTS. THE STRIFE IN GERMANY. THE CONFLICT IN SOUTHEAST ASIA. THE TRIALS OF GOLDBLOCKS.

In a typical day, John Kennedy would read newspapers from New York, Washington and Los Angeles. He would read foreign policy briefs and domestic white papers. Drafts of two or three speeches. He might steal



some time on Air Force One to read Keats. More briefs. Another draft. All the time, he would be reading the moods of foes, the whims of voters, the motives of special interests. And then after a long day at the Office, he would walk down the hall and attend to one more important domestic issue: bedtime stories for

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*Macaroni, Caroline's pony,
on the White House lawn.*

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Worried about higher interest rates?
Consider bonds you can redeem early.

Power to the creditors



By Eric S. Hardy

THE TRADITIONAL corporate bond is rigged against investors. When interest rates rise, it falls in value, just like a Treasury bond. But, unlike Treasury bonds, many corporate bonds don't rise much when interest rates fall. That's because corporate issuers of these bonds reserve the right to call them in early, at only a slight premium over the issue price. Heads you lose, tails you break even.

You can grab back some of this power by buying a bond with a built-in put option. This put gives you the right, but not the obligation, to sell the bond back to the issuer prior to maturity. The put exercise price is usually at par value. Puttable bonds are also generally noncallable—that is, the issuer does not have the right to force you to redeem early.

Nothing is free on Wall Street. You pay for this put feature in the form of reduced yield. Dennis Adler, a corporate bond strategist at Salomon Brothers, says the yield sacrifice on a noncallable 30-year A-rated corpo-

rate bond that can be put to the issuer at par five years out is perhaps 20 basis points (a fifth of a percentage point).

Giving up some yield makes sense for someone who is nervous about his principal. If worry about a coming spike in interest rates has kept you from buying long bonds at all, then puttables are definitely worth a look.

One important caveat here: Almost all bond puts are "European-style," meaning they can be exercised only for a very short time—perhaps on one specific day. Still, having only one day to redeem a bond is better than having none at all.

A few municipal bonds and about 900 corporate issues have some kind of put feature. But note that for many of the corporate issues, the put becomes exercisable only after a change in corporate control. These are called poison puts and are seldom of value to the investor. They are installed to protect the management.

The table lists ten noncallable corporate bonds that can be put back to

the issuer no matter who controls the company. In evaluating bonds like these, don't look at the maturity within your usual frame of reference. Often it's better to think of the put exercise date as the maturity.

To illustrate, look at the NBD Ba 8.25s of 2024. The Aa3-rated bond currently sells for 102 to yield 8.1% maturity. But because the bond can be sold back to NBD at par on Nov. 2004, it is easier to think of this as a ten-year bond yielding 7.9% to maturity. You'll redeem the bond in 20 if interest rates have climbed or NBD credit quality has deteriorated.

Alternatively, if rates have fallen and NBD still looks like a good bet, then you will hang on to the paper. At that point you will have, in effect, a new 20-year bond yielding 8.25% maturity. In this light, your 30-year bond with a 10-year put becomes a 10-year bond with an attached option on a 20-year bond. With bonds like this one the creditor is in the driver's seat.

Redeeming virtue

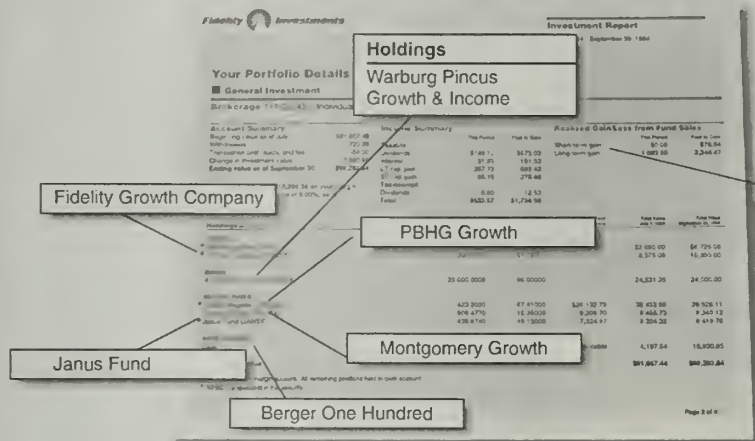
Issuer	Coupon	Maturity	Moody's rating	Amount issued (\$mil)	Recent price	Yield to— put maturity		Date of first put	Yield sacrifice*
Columbia/HCA Healthcare	8.360	4/15/24	A3	\$150	\$101.21	7.46%	8.25%	4/15/04	0.41%
Corning	7.625	8/1/24	A2	100	99.36	7.72	7.68	8/1/04	0.62
Eastman Chemical	7.625	6/15/24	Baa1	200	96.90	8.05	7.90	6/15/06	0.42
Eaton	8.000	8/15/06	A2	100	102.56	6.10	7.66	8/15/96	0.33
NBD Bank	8.250	11/1/24	Aa3	250	102.20	7.92	8.07	11/1/04	0.50
New England Telephone	7.875	11/15/29	Aa2	350	102.77	6.11	7.65	11/15/96	0.91
New Jersey Bell	7.850	11/15/29	Aaa	150	103.66	6.92	7.55	11/15/99	0.61
Pennsylvania Power & Light	7.700	10/1/09	A2	200	101.86	7.21	7.49	10/1/99	0.48
RJR Nabisco	6.800	9/1/01	Baa3	100	97.83	7.79	7.23	9/2/97	1.19
Torchmark	8.250	8/15/09	A3	100	101.27	7.28	8.10	8/15/96	0.34

*Yield forfeited by favoring puttable bond over nonputtable bond of comparable maturity and credit quality.

Sources: Bloomberg Financial Markets; Salomon Brothers Fixed Income Research.

These corporate bonds feature a built-in put option: You get at least one chance to cash in the bond early at par value. You exercise this right if interest rates rise or if the issuer's credit quality deteriorates.

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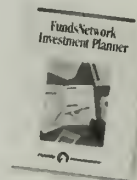
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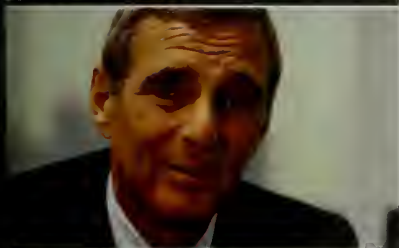
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an unpleasant earnings surprise will kill a high-P/E stock but scarcely touch a low-P/E stock.

Where bad news is good

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New Jersey, and author of *The New Contrarian Investment Strategy*.

MUCH IS MADE these days of "earnings surprises." If American Whatnot expected to earn \$1.50 this quarter but reports \$2, people scramble to buy the stock. If it reports 50 cents, they rush for the exits.

The Value Line did a lot to popularize this approach to investing, since earnings surprises have been one of the published factors in the formula for Value Line's famous stock rankings. Plenty of money managers play a similar game, either attempting to anticipate surprises or reacting to them (see p. 146).

The trouble with buying or selling in reaction to an earnings surprise is that you are competing with an awful lot of other people trying to do the same thing. There's a better way: Stick to stocks with low price/earnings multiples. These stocks tend to do relatively well whether the surprises are positive or unpleasant.

This is clearly documented in a recent study I did in collaboration with Professor Michael Berry of James Madison University. We started with a database maintained by Able Noser of 2,200 large companies in the period 1973 to 1990. We defined a posi-

tive surprise as a quarterly earnings report 10% above consensus Wall Street forecasts, and a negative surprise as one 10% below.

Next, we focused on stocks in either the highest 20% or lowest 20% of P/Es as ranked by their 12 months' trailing earnings. Over the 17-year period, there were 8,215 positive surprises and 8,052 negative surprises in the two groups. The effect of the surprises was stunning.

Here are the numbers. In the first quarter, which always included the surprise, a negative event resulted in low-P/E companies' averaging a 1.3% return behind the overall market. But high-P/E companies lagged the market by 5.6%. At the end of a full year, negative surprises on low-P/E stocks were only one-half of 1% below market, while high P/Es trailed the average by 11.3%.

The difference in how the market treated positive surprises in the two groups was as stark. Low-P/E stocks beat the market by 5.4% during the surprise quarter. High-P/E stocks outperformed the market by 2.7%. However, at the end of a full year, it was no-contest. Positive surprises sent the low-P/E group up 14%, versus 3.1% for the high P/Es.

These results make sense. Low-P/E companies are in the dumps because Wall Street expects so little of them. A bad quarter isn't necessarily bad news to shareholders and may be good news in disguise: It may mean that a corner has been turned and a rebound is in store.

Contrast high-P/E companies. Wall Street expects the world of these growth companies. The slightest disappointment is reason enough to dump one of these stocks. They get killed by an earn-

ings report below forecast, even if earnings are up handsomely from the previous year.

We followed each stock in the two groups for the next 19 quarters. The average low-P/E stock outdistanced the market throughout that period, whether the surprise was positive or negative. These market-beating margins averaged 4.7% annually.

The average high-P/E surprise stock underperformed the market in each of the succeeding 19 quarters—again, no matter whether the surprise was positive or negative. Overall, the high-P/E surprise group lagged the market by about 5% a year.

The bottom line then is that all news—good or bad—is positive for low-P/E stocks and negative for high. This helps explain why low P/E, low price-to-book, low price-to-cash-flow and other contrarian strategies I have advocated in this column have worked so well over the years.

Here are a number of contrarian stocks to consider:

First Chicago (49) is the eleventh-largest bank in the country. The stock is cheap at a price-to-book of 1, a P/E of 7 and a yield of 4.5%.

Fleet Financial (31) trades at a P/E of 8, near book value and at a yield of 5.1%. Earnings should be helped if the recently proposed Shawmut deal is consummated.

Louisiana Pacific (27) is one of the nation's largest producers of lumber. Earnings should be stronger this year, with the likelihood of a good housing

A bad quarter for a low-P/E stock may be good news in disguise.

market. The stock has a P/E of 8 and yields 1.8%.

Student Loan Marketing (37) purchases federally guaranteed student loans from lenders. The stock trades at a P/E of 7 and yields 4%.

Tecumseh Products (46) is a manufacturer of refrigeration compressors and small pumps and gas engines. Earnings have made good progress in recent years and should increase by 10% in 1995. The stock trades at a P/E of 8 and yields 2.2%. ■

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 Procter & Gamble Fund
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 Power Company
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 Wallace Genetic Foundation

Save the Last Great Places

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\$100,000 TO 249,999

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So what if the market broke 4000? The best long-term performers among investment letters remain unimpressed.

The bear growls

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*, which monitors the performance of investment advisory letters. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

"THE MOST BULLISH THING a stock market can do is make a new high." I heard that cliché a lot in late February and early March as the stock market finally passed its alltime high of a year earlier.

But I have a different take on the market's achievement. It's drawn from the three top-performing market letters of the past 15 years, as tracked by the *Hulbert Financial Digest*. These three are the *Chartist*, the *Zweig Forecast* and *Value Line*. The message from all three is bearish, as it has been for nearly a year.

How can someone who was bearish a year ago look smart now, with the market hitting a new high? The answer is that the broad market, for all the fuss over the Dow's 4000 mark, has not done all that well over the past year. Remember, the Dow Jones industrials peaked in 1994 in January, at 3978. Since then the index has climbed a mere 0.9%—about 3.5% if you throw in dividends. Secondary stocks performed even less well. With a return above 4%, cash did better.

Indeed, the market has been rather weak over the past five years. Since February 1990 the S&P 500's total return has averaged 8.7% a year. Its long-term historical average is more than one percentage point per year

better than this. Investors are wrong to think we are still in a robust bull market. Among investment letter writers, the best long-term performers have been rewarded for shifting more and more of their portfolios to cash over the last several years.

The top three investment letters I track say the foundation of the market today is shaky.

Let's start with the advance/decline line, an indicator that is constructed each day by adding to the previous day's reading the plurality of advancing issues over declining issues. If we define a healthy bull market as one in which more issues go up than down, the current market is sickly. The advance/decline line topped out over a year ago, and is today not even in shouting distance of that peak.

This divergence between the Dow and the advance/decline line is one of the primary reasons that Dan Sullivan, editor of the *Chartist*, is so bearish. He's in second place among all the letters tracked by the *HFD* since 1980. Sullivan concedes that the advance/decline line normally tops out before

the stock market is looking much more overvalued.

The market's low yield worries Martin Zweig, editor of the *Zweig Forecast*. Zweig is in third place for performance since 1980. "Going back to 1926, when the [dividend] yield dropped below 3%, the results are not pretty," Zweig writes. "On average, for every period ranging from one year later all the way out ten years, the market's total return was worse than if you held cash. Zweig currently is 40% invested in stocks, 60% in cash.

The investment letter in first place for performance since 1980 is the *Value Line Investment Survey*. It currently is recommending a 35% cash position, a very cautious posture for *Value Line*.

Value Line's analysts follow 1,700 stocks. As part of their writeups, they project how much their stocks will appreciate over the next three to five years. The median of these projections has proved to be highly correlated with the market's level four years later—with one major qualification

"Going back to 1926, when the dividend yield dropped below 3%, the results are not pretty."

the market itself, but with 13 months now having passed since the line's top, he is convinced that the market is living on borrowed time. Sullivan currently is just 21% invested in his model stock portfolio.

Now let's look at short-term interest rates. Their steep rise has eroded another of the market's cornerstones. As long as rates remained low, the stock market could escape the bearish implications of its low dividend yield of less than 3%. But with short-term interest rates more than double the average stock's dividend yield,

You first need to subtract 55% from (see my Oct. 25, 1993 column).

The median of *Value Line* analysts' current projections is 65%. Adjusted downward, this suggests the market will be only 10% higher in four years. Even including dividends, this indicates a pathetic 5% annual total return on stocks, less than you would get buying four-year Treasuries.

What does it all mean? If the best long-term performers continue to win in the long run, the best investment policy right now would be to buy those Treasuries.

Should you worry about the market because dividend yields are low? No. Here's why.

Beyond yield

BY R.S. SALOMON JR.



R.S. Salomon Jr. is principal and founder of Stamford, Conn.-based STI Management. Research assistant: Caroline Davenport.

USED TO BE accepted wisdom that stock prices were in trouble if the dividend yield for the market as a whole dropped below 3%. For some time now, the market yield has been under this threshold level and yet prices seem to be holding up just fine. Is it time to rewrite the textbooks? Yes.

Using the market's dividend yield as a major measure of equity values has a long history, but it is time to bury it. Experience of the recent past amply demonstrates that stock prices are much more closely linked to inflation than to stock prices. Changes in the Consumer Price Index, it turns out, explain roughly 70% of the movement in stock yields.

When stocks are providing a real return (i.e., when inflation is less than yield), they are generally not overpriced.

A better rule to follow is this: When stocks are providing a real return (i.e., when inflation is less than yield), they are generally not overpriced. Current inflation is running at a rate of 2 to 2.5% (depending on which inflation measure you use), while the current dividend yield is 2.8%. So

stocks provide a small but real rate of return currently.

Payout ratios (dividends divided by earnings) are also an important part of any analysis of yields. The payout on the S&P 500 generally fluctuates between 40% and 60% of earnings. Today the payout is at the low end of that range for two reasons: Earnings have been growing at a good clip for several years, and dividend growth has been negligible. Clearly, the yield associated with a low payout ratio should be worth more than one produced from a high payout.

Why have managements been stingy with dividends in recent years? The key reason is that they have been redressing their balance sheets after a prolonged period in the 1980s when the equity base shrank and corporate debt ballooned. Now companies are retaining earnings instead of paying them out. Growth in retained earnings, combined with some equity issuance, has produced a significant improvement in corporate balance sheets.

Another reason dividend growth has lagged profit growth has to do with tax rates. At present, the differential between income and capital gains favors the latter: Many investors must hand over to various governments as

much as half of any dividends they get; they need hand over no more than one-third of any capital gains. As a result, some corporate managers have emphasized share repurchases over increased dividend payments as means of creating shareholder value.

The rebuilding of corporate balance sheets now appears to be winding down. Beyond the balance sheet ratios, there is clear evidence that managements are feeling more confident. In the fourth quarter of last year, dividends shot up 8%, a dramatic acceleration from the 2% to 3% growth of the past several years.

How important is yield to the equity investor? Let's assume that the average annual return for stocks will fall in a range of 8% to 10% over the next few years. This would be consistent with long-term stock returns, even though it represents a decline from the 15% returns that investors have enjoyed over the past ten years.

Given lower total returns, current yield will account for a larger part of return. A yield of about 3% will account for 35% of the 8% to 10% total return forecast. In the 1980s, when total stock returns averaged 15% to 18%, current yield provided less than one-fourth of total return. If total returns are more subdued, then yield will play a more important role in the total return outcome for the equity investor. The best investments, in my view, combine an above-market yield with a below-average payout ratio. Since these companies are retaining a significant portion of earnings, the potential for growth in the future is good. These investments represent the best of both worlds: reasonable current return and the promise of more generous dividend payments down the road.

Using these guidelines, I recommend the shares of five firms: *Banc One* (28), *Mellon* (38), *PPG Industries* (36), *Eastman Kodak* (51) and *Kimberly Clark* (51). The average yield on this group is currently 3.9% and the average payout is 39.8%. This group offers both an above-market dividend yield and the potential for further dividend hikes.

Cyclical stocks like the autos may look cheap at today's prices, but they looked cheap before the 1974 crash, too.

Risky bargains

BY A. GARY SHILLING



A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

MANY U.S. cyclical stocks look mouthwateringly cheap. Chrysler is selling at 4 times the last 12 months' earnings, while Mead Corp. and Ford are selling at 5 times. Clark Equipment has a P/E of 6, GM 7 and Cummins Engine is at 8. In contrast, the P/E for the S&P 500 is about 16.

As cyclical companies recently enjoyed sales growth and the fruits of restructuring, their earnings leaped. Recession-wary investors, however, have dumped their stocks since the Fed tightening began in February 1994. With earnings up and prices down, P/Es have nose-dived.

But now, according to popular wisdom, the Fed has effected what it has never pulled off before—a soft landing. It is widely believed that the economy will grow at a rate of about 2.5% annually and inflation will remain subdued enough to keep the Fed at bay; maybe even the credit authorities will ease before long.

Don't bet on things happening that way. A big reason for recent earnings growth is product price increases. Ay, there's the rub.

So far, these price hikes, especially the big commodity increases, haven't substantially elevated producer fin-

ished goods or consumer prices, but they will. Our industrial clients tell us that their customers are more "understanding" of these suppliers' cost increases.

What this tells me is that markets have tightened to the point that industrial customers will accept supplier price increases because they think they can pass them on. But, so far at least, prices of end products have not risen nearly as fast as prices of materials. In the past 11 months, spot aluminum prices are up more than 60%, but aluminum-can prices have yet to move; they have actually declined. Rubber prices have leaped 85%, while tire prices are flat. Copper is up more than 40%, but copper wire has risen only 17% in price.

Eventually, manufacturers will pass on more of these increases in raw materials prices. Also, the drop in the dollar will increase inflation by raising the prices of imports and competing domestic goods and services. This, too, is alarming the Fed.

So I look for further interest rate hikes, with the usual result, a recession, starting as early as midyear. This recession may be deep, as defense spending cuts, excessive consumer debt, a still overbuilt real estate market and continuing layoffs from restructuring compound the depressing effects of past and yet-to-come interest rate increases. The Mexican crisis and the collapse in the dollar only exacerbate these domestic problems.

Needless to say, a serious recession will wreck earnings. Sales volume will fall and prices weaken. If further rises in interest rates and big declines in profits lie ahead, the resumption of the bear market in U.S. stocks that started more than a year ago is at hand, despite recent new highs.

When that happens, those temptingly low P/Es will go even lower. A

relevant historical precedent is the last major bear market, the 1973-74 sell-off related to the deep 1973-75 recession. Back then, the S&P 500 declined more than 40%—and many people thought the end of the world was near, at least for investors.

When the market stood on the brink in 1973, there were similarities to today: Cyclical, for example, looked cheap then, too. In the seven years before the November 1979 business peak, the P/E on Standard Poor's chemical group fell from 21 to 15 as earnings growth outstripped stock price advances. A big buying opportunity? Hardly. During the recession, chemical stocks fell more than 30%, and the group P/E dropped to a lowly 7.

Similarly, the paper group P/E fell from 23 to 12 in the two years before the business peak. But then, the group P/E fell to 5, as the 35% paper stock fall exceeded the earnings drop.

Other cyclical groups topped out even earlier. Automobile, metals and

At market tops, cyclical stocks often sell at low P/Es—as they do today.

homebuilding stock groups all before the 1973 business peak, most cyclical have this time. But it didn't keep auto stocks from dropping 50%, metals from declining more than 30% or homebuilding from falling over 50% during the 1973 recession.

In effect, in the quarters before a recession it is normal for cyclical stocks to sell at what look like bargain price P/Es.

But don't bite at apparent bargains. Low P/Es will get a lot lower, cyclical stocks a lot cheaper.

That flattening yield curve spells trouble for the economy, the stock market and the fellow in the White House.

A dangerous curve

BY CHARLES E. BABIN



Charles E. Babin is a senior vice president at NatWest Investment Management, a quantitative institutional asset management firm based in London. He oversees U.S. equity strategies.

IN SPITE OF A RECENT down-tick in rates, the yield curve continues to flatten—meaning that the gap between short-term and long-term interest rates is narrowing. If the trend continues, it will invert—that is, short-term rates actually will rise above long-term rates. Imagine a one-year loan costing more than a five-year loan. It has happened, notably in the early 1980s. Should the yield curve achieve inversion again it could be an ominous sign both for the economy and for President Clinton's reelection bid.

An examination of the historical record shows why an inverted yield curve is bad news. Over the last 30 years, the economy slipped into recession on five occasions. Study the table on this page. Notice how the yield curve behaved in the face of economic collapse. On average during these five periods, the yield differential between the one-year Treasury and a composite of 10-to-30-year Treasury bonds evaporated during the 24-month period immediately preceding the downturn and then turned negative. In short, first a flattening and then an actual inversion of the curve typically presages recession. Only one cycle (1990) failed to witness an inverted yield curve, although it came within a whisker of doing so.

The flip side of the relationship is also evident. Except for the 1980 recession, yield spreads returned to positive territory during the recovery period as short-term interest rates dropped faster than long-term rates.

That's why I am paying close attention to the shape of the yield curve. Over the past 24 months or so, the curve has been tracking the path associated with economic declines. Two

years ago (February 1993) roughly 350 basis points—3.5%—separated the short and long ends of the yield curve. A year ago the spread had narrowed to about 260 basis points. Today's differential is hovering around 100 points. That's pretty narrow.

There is reason to believe it will shrink still further. I put a lot of faith in what the futures market is saying about interest rates. Why? Because people who play the futures market are playing with real cash, not just making crystal ball predictions. They are making hard-headed commitments, not airy predictions. Right now the futures market is predicting higher rates ahead. Judging from the behavior of the futures market, I would guess that the three-month T bill will inch higher over the balance of 1995. If this happens, the yield curve will approach inversion.

The potential for a nasty surprise is building.

What could cause it to invert? Higher-than-expected inflation or continued economic strength—which might prompt the Fed to opt for another rate increase—or both. The potential for a nasty surprise is building. I am betting that this year's inflation will exceed the consensus (and Alan Greenspan's) estimate (3.2%). It could top 4%. The Fed would have to slam on the brakes again.

This isn't what many of the pundits are predicting. They are convinced that the Fed will refrain from any further interest hikes. They think that the Federal Reserve will succeed in its effort to engineer a soft landing—reducing economic growth to a more sustainable 2.5% pace while easing inflation and averting recession. That would be lovely, but it is not likely.

That flattening yield curve is a hint that we may not get that hoped-for soft landing. We may get instead a hard landing, one that will shake your teeth. We could be in for more increases in short rates that would take 30-day T bills to 6% and beyond. If those rates continue to shift to the point where the curve inverts, watch out! The stock market and the economy could be in for some tough sledding.

Economic signpost

Recession start date	Yield differentials				
	24 months prior	12 months prior	at start date	12 months following	24 months following
1969	-35	-54	-136	97	97
1973	77	23	-126	-73	72
1980	22	-198	-203	-243	-59
1981	-129	118	-267	-27	90
1990	145	30	70	219	380
Average	16	-16	-132	-5	116

History shows that it pays to monitor shifts in the yield curve. Over the past 30 years, every recession was preceded by a flat-to-inverted curve.

Yield spread between one-year Treasury and a composite of long-term Treasury bonds (over ten years). Figures based on monthly average yields adjusted to constant prices. Source: U.S. Treasury.

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Alexander the great?

LAST JULY American International Group, the shrewd property and casualty insurer, took a 20% stake in the depressed shares of insurance broker Alexander & Alexander. AIG bought \$200 million of preferred stock, convertible into common at \$17; five years ago the stock was at 34.

Alexander & Alexander, hurt by bad acquisitions and a soggy market, has finally begun to turn around. Duff & Phelps analyst Adam Klauber projects it will earn 80 cents a share, up from an estimated 45-cent loss in 1994. He says it could earn as much as \$1.80 next year. Since AIG bought in, A&A stock has run up to a recent 21¾.

Should you follow AIG's lead? No, says Klauber, not yet anyhow. The insurance marketplace may continue soft, the analyst says, thwarting his expectations for 1996, and at 21¾ Alexander & Alexander stock doesn't adequately reflect the risks. Klauber's conclusion: Stock's ahead of itself.

Focusing the mind

RICHARD DAVIS, the new chief of research at Dallas-based brokerage Rauscher Pierce Refsnes, is putting his analysts' money where their mouths are. Davis has set up an in-house mutual fund that will hold a big chunk of the bonus money paid to Rauscher analysts at the end of the year. The fund will invest in stocks Rauscher analysts recommend to the firm's clients. (After, of course, the customers have had first crack at them.) The analysts' ten top picks (*see table*) include everything from railcar

maker Trinity Industries to Tom Brown, a turnaround in oil and gas.

"It's a little real-world exercise that focuses attention on how to make money," says Davis. "Our analysts are paying a lot more attention to their picks." —CHRISTOPHER PALMERI

Where there's smoke . . .

A COUPLE WEEKS AGO rumors had it that banking behemoth NationsBank (assets, \$166 billion) was mulling a bid for Birmingham, Ala.-based AmSouth Bancorporation (assets, \$17 billion). AmSouth stock quickly popped from 29 to 33. Both companies quickly issued a no-comment. AmSouth stock has since settled back to 30½, around ten times what the bank's expected to earn this year.

But there may be something to the rumors. Charlotte-based NationsBank has been on an acquisition spree. Picking up AmSouth would extend its reach into Alabama, and give it over \$6 billion of additional assets in Florida, where NationsBank wants to increase its market share.

AmSouth is certainly vulnerable, and not just to NationsBank. AmSouth's stock has been pretty much dead in the water for the past two years; the company's market capitalization is just \$1.8 billion—making it eminently affordable prey for such southeastern superregionals as First Union and Barnett Banks, as well as NationsBank. At recent prices, AmSouth is selling for 1.37 times book value; NationsBank trades for 1.25 times book. Reason: Smaller AmSouth is seen as a target.

Banking analyst Richard Bove of St. Petersburg, Fla.-based Raymond, James & Associates notes an incentive for a deal to happen over the next year and a half. AmSouth Chairman John Woods, 63, is due to retire in August 1996. But if AmSouth changes control before then, Woods gets to collect nearly \$2 million from a golden parachute. And that's on top of the value of Woods' AmSouth shares and options, if converted. Current worth a nifty \$9.2 million.

—MATT WALSH

Show-me stocks for a show-me stater

LAST YEAR analyst John Rast of St. Louis' Huntleigh Securities recommended two stocks to Streetwalkers: Hi-Lo Automotive, a specialty retailer of auto parts and accessories with a chain of stores in Houston (*Mar. 28, 1994*), and Sigma-Aldrich, the world's largest—estimated independent maker of specialty chemicals and supplies used in laboratory research (*Sept. 26, 1994*).

Back then Hi-Lo stock had been hurt by poor weather, expansion costs and price-cutting; the shares had slumped to 12¾ from over 20 in late 1992. Sigma-Aldrich had dropped 40%, to 34¾, in six months, because of the cost of adding products to its list was braking earnings growth.

Rast liked the earnings prospect both. Last year neither disappointed him. Nor does he expect them to this year; he's predicting \$1 a share for Hi-Lo and \$2.40 a share for Sigma.

But Rast was early, and still is. Hi-Lo's stock is down to 9½; Sigma-Aldrich's up only a smidgen, to 30.

Says Rast: "If Hi-Lo earns a buck, the stock ought to bounce back to 10 or 15." Sigma-Aldrich? "A lot of growth stock investors used to buy this one," Rast replies. "Now become a show-me stock. Well, showing me, but elsewhere it's unnoticed. Hard for me to believe that'll go on too much longer."

Now playing, Carmike

AFTER CINEPLEX ODEON completed the deal it just announced—to buy movie theater operator Cinerama USA—it will become the biggest exhibitor in the U.S. Cineplex's 1

Rauscher's top ten

Company/business	Recent price	EPS		P/E 1995
		'94	'95E	
BJ Services/oilfield drilling	18¾	\$0.69*	\$0.91*	20.6
Celebrity/crafts and artificial flowers	6¾	0.44	0.65	9.7
Digital Equipment/data processing equip	31¾	3.72	-0.10	NM
Landmark Graphics/seismic software	20¾	1.14*	1.22	16.5
Tejas Power/natural gas marketing	9¾	0.36	0.60	16.3
Tetra/waste recycling & treatment	10¾	0.48	0.70	15.5
Tom Brown/oil & gas exploration	14¾	-0.01E	0.15	NM
Trinity Industries/railcars; barges	33	1.75	2.20	15.0
Union Texas Petroleum/oil & gas exploration	19¾	0.76	0.85	23.1
Wendy's International/fast food	15¾	0.91†	1.08†	14.7

*Continuing operations. †Fully diluted. E: Estimated. NM: Not meaningful.

Source: Rauscher Pierce Refsnes, Inc.

With these stocks, the analysts are putting their money where their mouths are.

green count will increase to 2,839. Well behind Cineplex in screens, but much more profitable, is Columbus, Ga.-based Carmike Cinemas, Inc. Carmike operates over 2,000 screens in 31 states. Unlike Cineplex Odeon, which lost money again last year, Carmike has mainly pursued a small-town strategy (FORBES, Sept. 7, 1993). Last year sales rose 35%, to \$328 million; earnings grew 43%, to \$17 million.

Analyst Mark Allen of Atlanta's Robson-Humphrey expects Carmike to keep barreling along. He looks for it to construct at least 108 screens this year and acquire dozens more.

Helping Carmike finance this growth will be the \$58 million it raised last November through a secondary offering of nearly 2.9 million shares at 21½ apiece. The stock has barely budged since then (recent price, 21½). But Allen estimates Carmike—even with the new shares—will earn \$2.20 a share this year, up from \$2 in 1994. That kind of earnings power, he predicts, will eventually be reflected in a higher price for a stock currently selling for under ten times anticipated earnings.

Carmike is no takeover target. Voting control of its 11.2 million NYSE-listed shares rests firmly in the family. Chief Executive Michael Patrick, whose father founded the chain and is still its chairman.

Still faithful

BETWEEN FALL 1992 and early 1994, the stock of A.O. Smith Corp. ran to impressive new highs, peaking at 40, spurred by growth in pickup trucks and sport-utility vehicles, for which Milwaukee-based A.O. Smith makes engines. But when interest rates started rising, Smith stock started falling. Last summer Fehnestock analyst Roness called Smith a buy at 38 (FORBES, Sept. 12, 1994). He thought sport-utility and pickup sales were less sensitive to interest rates than the rest of the auto sector. Roness was half right. Smith's 1994 earnings were up sharply. He expects the stock to rise to \$3.10 a share in 1995.

But as Smith's stock keeps falling, its price is down 20%. Roness is hanging in there. "I bought Smith before in a bad time and made out. I think it'll happen again. Stock's worth \$35." ■



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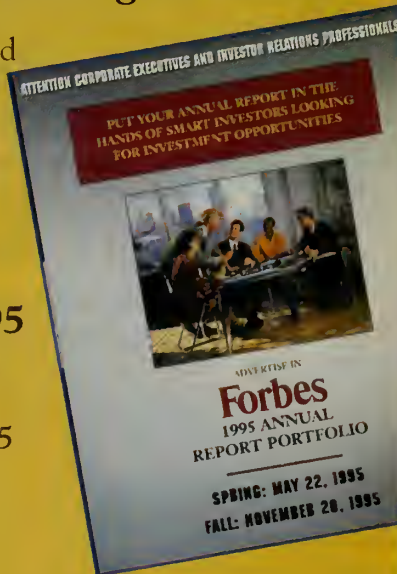
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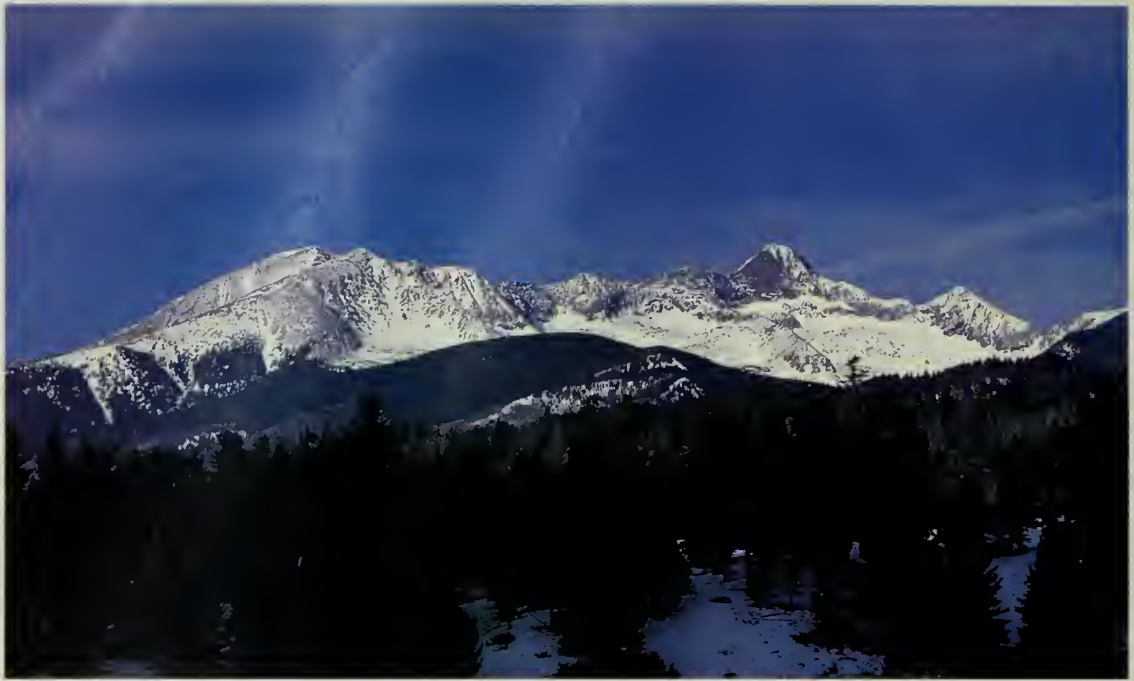
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The more things change . . .

70 years ago in FORBES

(FROM THE ISSUE OF APR. 1, 1925)



The first Ford "factory" was far from grandiose affair.

The transatlantic steamship lines anticipate an especially active season of tourist traffic, based on advanced bookings. Officials look for the great increase to be in round-trip third-class traffic. The best tourist record is that of 1913, but 1925 is expected to exceed it."

What can the public think when oil leader after oil leader implicated by government in alleged questionable financial acts flees the country and refuses to submit to a federal subpoena? Briefly, the charge made is that certain very influential men got together and cooked up the sale and purchase of an enormous quantity of oil on terms which yielded millions in graft, and that part of this graft went to ex-Secretary of the Interior Herbert B. Fall."

50 years ago

(FROM THE ISSUE OF APR. 1, 1935)



Assembly at the building site regarded as a prime advantage of prefabricated homes.

"Should Congress eliminate or drastically curtail NRA restrictions on industry, the effect on the automobile manufacturers probably will be stronger indirectly than directly. . . . Even a decision against the used-car price-fixing provisions of the retail code would not result in any radical change of the situation in many areas where code enforcement already has long been difficult."

"John D. Rockefeller, the largest-scale philanthropist in modern history, told me that he regards all his money-giving as of less worth to America than what he and his associates achieved in providing work at decent wages for many thousands of breadwinners."

30 years ago

(FROM THE ISSUE OF APR. 1, 1945)

"Allied and Russian troops will have a continuous corridor forged through Germany by the end of June if organized resistance by the Wehrmacht armies can last that long. While there now are serious doubts of winning an unconditional surrender of all Germany in a single stroke, the worst of the fighting there almost certainly will be over."

"We repeatedly read that people are spending as never before, that retail store sales are beyond anything ever before known, that hotels everywhere are overcrowded. . . . Nevertheless, in face of all this spending, official figures record savings far beyond all precedent. The SEC reports the gain of the astronomical sum of \$120 billion in the 'liquid resources' of individuals since the war began."

25 years ago

(FROM THE ISSUE OF APR. 1, 1970)

"The Labor Department reports that the number of working women increased by 32% to 29.2 million between 1958 and 1968, until they now comprise almost 38% of the work force. . . ."

"The U.S. is getting uncomfortably crowded. That is what nearly everybody thinks, but [it] is not *precisely* true. . . . What is really happening is a bit more complicated: As the population expands, it is, in a sense, contract-

ing. In 1950, 64% of the population lived in urban areas; today 75% does; by 2000, 85% will."

"Look at it this way: A 20% return compounded doubles your money in less than four years. And, by contrast, a 100% gain followed by a 50% loss over the same period brings you out just even."

10 years ago

(FROM THE ISSUE OF APR. 25, 1985)

"Three times in the past dozen years Miami residents have voted down a bond referendum to finance renovation of the aging Orange Bowl, the city-owned stadium where the Dolphins have battled to football glory. Dissatisfied with revenues from the cramped facility, Dolphins owner Joe Robbie considered moving the team to another city. But the prevailing sentiment around town was, 'If Joe Robbie wants a new stadium, let him build it himself.'"



Miami Dolphins owner Joe Robbie on the plot of land where he hoped to build his new Joe Robbie Stadium.

"Saturn will be a whole new car—eventually a series of cars—not just an evolutionary development from existing GM cars. They will be sold in Saturn showrooms by 1989. . . ."

"A survey of 600 office workers . . . found that 24% of them, particularly women, rated the air around them either 'only fair' or 'poor'. . . . Two-thirds of those who said they had trouble working because of air quality blamed poor ventilation. . . ."

Uncertainty hurts business. It annoys individuals. Why keep the whole country, including business and individuals, in uncertainty over the extent of the tax burdens to be placed upon us? How many of those who voted for Calvin Coolidge imagined for a moment that would do nothing to bring about tax relief before 1926? . . . But if the Administration persists in opposing a special session then it will inevitably be 1926 before action is taken. . . . Coolidge and Congress should ease our minds and grease our activities by reforming and reducing taxation as soon as feasible after March 4.

—B.C. FORBES

Have you noticed that life, real honest-to-goodness life, with murders and catastrophes and fabulous inheritances, happens almost exclusively in the newspapers?
—JEAN ANOUILH

News is the first rough draft of history.
—PHILIP L. GRAHAM

News is what a chap who doesn't care much about anything wants to read. And it's only news until he's read it. After that it's dead.
—EVELYN WAUGH

Were it left to me to decide whether we should have a government without newspapers, or newspapers without a government, I should not hesitate to prefer the latter.
—THOMAS JEFFERSON

A Text...

The days of our years are threescore years and ten; and if by reason of strength they be fourscore years, yet is their strength labor and sorrow; for it is soon cut off, and we fly away.
—PSALMS 90:10

Sent in by Mrs. Pauline Floyd, Livermore, Calif.

What's your favorite text?
The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Journalism is popular, but it is popular mainly as fiction. Life is one world, and life seen in the newspapers another.
—G.K. CHESTERTON

Evil report carries faster than any applause.
—BALTASAR GRACIAN

The evil that men do lives on the front pages of greedy newspapers, but the good is oft interred apathetically inside.
—BROOKS ATKINSON

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The tabloid newspaper actually means to the typical American what the Bible is popularly supposed to have meant to the typical Pilgrim Father: a very present help in time of trouble, plus a means of keeping out of trouble via harmless, since vicarious, indulgence in the poms and vanities of this wicked world.
—E.E. CUMMINGS

A newspaper column, like a fish, should be consumed when fresh; otherwise it is not only indigestible but unspeakable.
—JAMES RESTON

A reporter is always concerned with tomorrow. There's nothing tangible of yesterday. All I can say I've done is agitate the air ten or fifteen minutes and then boom—it's gone.
—EDWARD R. MURROW

A good newspaper, I suppose, is a nation talking to itself.
—ARTHUR MILLER

What the mass media offer is not popular art, but entertainment which is intended to be consumed like food, forgotten, and replaced by a new dish.
—W.H. AUDEN

To a philosopher all news, as it is called, is gossip, and those who edit and read it are old women over their tea.
—HENRY DAVID THOREAU

I do not like to get the news, because there has never been an era when so many things have been going right for so many of the wrong persons.
—OGDEN NASH

